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BUDGET ANALYSIS 1999 BIENNIUM

Overview & General Reference



January 1997

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BUDGET ANALYSIS

1999 Biennium

Overview

Presented to the Fifty-fifth Legislature

Submitted by

The Legislative Fiscal Division

Helena, Montana

January 1997



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MONTANA LEGISLATIVE BRANCH
Legislative Fiscal Division

December 1996

Members of the Fifty-Fifth Legislature
Members of the Legislative Finance Committee

In accordance with Section 5-12-302, MCA, I submit for your consideration a fiscal analysis of the state budget outlook for the 1999 biennium and Governor Racicot's Executive Budget. This multi-volume report includes the "Overview and General Reference" volume that presents a broad fiscal overview and discusses significant fiscal issues as well as fiscal reference material. Revenue forecasts and analysis have been included for the first time in a separate volume entitled "Economic Assumptions and Revenue Estimates." Also a first, "Agency Budgets - Volumes I and II" are a combined presentation of this office and the Governor's Office of Budget and Program Planning. Those volumes provide the Governor's agency budget recommendations along with the Legislative Fiscal Division's detailed analysis of the components of the Executive Budget. The combined agency budget volumes are designed to be a working document during the appropriations process.

The staff of the Legislative Fiscal Division look forward to being of service to the legislature during the 1997 session. We are here to assist all legislators in obtaining the best possible fiscal information to facilitate setting fiscal policy and appropriations. We welcome any comments you may have regarding the format, content, and usefulness of this report, as they will be helpful in our future efforts to provide fiscal information for legislators.

We thank the Office of Budget and Program Planning and agency staff for their excellent cooperation during the budget analysis process and development of the joint agency volumes.

I cannot adequately express my gratitude to the LFD staff for the thousands of extra hours and their personal sacrifice in preparing this analysis. The dedication and hard work of the staff are a credit to the legislature and the people of Montana.

Respectfully submitted,

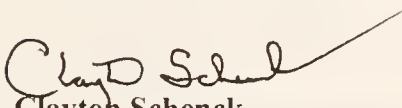

Clayton Schenck
Legislative Fiscal Analyst



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INTRODUCTION

COMBINED EXECUTIVE/LEGISLATIVE PRESENTATION

The 1997 legislature passed legislation requiring that the Legislative Fiscal Analyst, "...in a mutually prescribed format, publish the Governor's budget and incorporate the information required by 17-7-123 [the section prescribing the form of the Executive Budget] in a combined Governor's budget and Legislative Fiscal Analyst's budget analysis presentation." The joint Executive Budget/LFD Budget Analysis (Volumes I and II) is the result of that directive.

The Governor and his Office of Budget and Program Planning (OBPP) have an obligation to present, defend, and advocate public policy for the State of Montana. It is the duty of the Legislative Fiscal Division to ensure that the legislature has independent, nonbiased information with which it can make decisions. These two duties, which lie at the heart of the purpose of each office, are fundamentally different. Consequently, while the book is jointly and cooperatively presented, the budget was not jointly developed. The LFD did not at any time participate in decisions regarding any adjustments or inclusions in the Executive Budget, in order to allow for independent review and analysis. However, the LFD and OBPP did work cooperatively to determine how the book would be structured and the form in which the information would be presented.

There are two sections contained in Volumes I and II, in which the Executive Budget and the LFD budget analysis are jointly presented. The unique contributions are differentiated by the use of different fonts, allowing for easy discernment of authorship by the reader.

1) Agency Budgets and Analysis Section - This section discusses each agency and program funded in HB 2. OBPP provides the present law and new proposals description, and other narrative concerning a specific program or agency as they deem necessary. The LFD presents major agency and program issues that may or may not directly

relate to proposals advocated by the executive, and provides an analysis of individual present law adjustments and new proposals as deemed appropriate. The LFD analyst also provides the section describing each program's funding. To further aid in legislative decision-making, the LFD analyst also provides additional explanations and information when deemed necessary and appropriate.

2) Proprietary Rate Setting and State Fund section - The Proprietary Rate Setting section in Volume II discusses those programs and/or functions that no longer require an appropriation due to the passage of HB 576. The executive provides: 1) a table describing changes to fund balances and fund equity; and 2) an explanation of proprietary rates and the factors influencing the rates included in the Executive Budget. The LFD provides analysis and further explanation as appropriate. The State Fund portion discusses the State Mutual Compensation Insurance Fund, which is statutorily appropriated.

The remaining budget volumes and sections, including this overview, were written independently by either the LFD or OBPP.

For a guide to the sections of the Executive Budget/LFD Analysis, please see the next section of this volume. For a discussion of how the individual agency budgets and analysis are structured and a guide to reading that portion of the joint Executive Budget/LFD Analysis, please see the introduction to the Agency Budgets and Analysis section, which begins in Volume I. The introduction to the Proprietary Rate Setting and State Fund section in Volume II provides an overview for reading that section.

HOW TO USE THIS REPORT

Purpose of Report

The purpose of this report and the joint Executive Budget and LFD Budget Analysis (Volumes I and II) is to assist the 1997 legislature in setting its fiscal priorities and reflecting those priorities in the 1999 biennium General Appropriations Act and other fiscal legislation. It seeks to accomplish this by:

- providing an outlook of the state's fiscal condition;
- analyzing the budget proposed by the Governor for the 1999 biennium; and
- identifying some of the major fiscal issues facing the Fifty-Fifth Legislature.

This overview is intended to complement the LFD Economic Assumptions and Revenue Estimates volume and Volumes I and II of the joint Governor's Budget and LFD Budget Analysis, which contain the Executive Budget and an in-depth review of the same by the LFD.

The Economic Assumptions and Revenue Estimates volume provides details on the revenue side of the budget picture, including the Revenue Oversight Committee recommendations. Volumes I and II feature the program by program detail of the Executive Budget, as well as the LFD analysis of that budget. In contrast, this document presents a broader fiscal overview and summarizes significant fiscal issues that may impact more than one agency or that do not fall into the jurisdiction of a single fiscal subcommittee. The executive fulfills this function in a publication independent of this volume and of the joint Executive Budget and LFD Budget Analysis.

The analysis has five primary components, listed here and described further below:

- Budget Overview
- General Reference
- Revenue
- Agency Budgets and Analysis
- Proprietary Rate Setting and State Fund

(The Executive Budget also includes several other volumes detailing their recommendations for several grant programs, and listing several reports required by statute.)

Budget Overview

This section, contained in this volume, provides an overview by the LFD of the state fiscal outlook, including a general fund summary. It also includes an overview of the Executive Budget, and is designed to provide a context in which the reader may examine the Executive Budget and other major fiscal issues. It provides an analysis of the Executive Budget on a statewide level, evaluating and summarizing the major revenue and expenditure proposals and key executive policy direction. In addition, it provides an overview of the issues and policies generally discussed in greater detail, by agency, in the "Agency Budgets and Analysis" section published in Volumes I and II.

Other fiscal issues are raised and discussed in this section that may not be specifically addressed in the Executive Budget but which either have emerged or have the potential to emerge in this or future biennia.

General Reference

Included in this volume is an overview of budget basics, including budget terms and concepts. It is designed to provide the reader with a basic grounding with which to read and understand the budget terms and concepts used or referred to in the Executive Budget/LFD Budget Analysis.

This section also provides a comparison of agency budgets by fund type.

Revenue

A summary and overview of major revenue sources to the state, including general fund and trust funds, is provided in a separate volume. The volume also includes a discussion of the economic assumptions used to derive the revenue estimates established for use in the legislative session by the Revenue Oversight Committee (ROC).

HOW TO USE THIS REPORT

Agency Budgets and Analysis

Within Volumes I and II, sub-sections A through E include an explanation and LFD analysis of the Executive Budget for each agency and agency program. Each sub-section includes a number of state agencies organized by functional grouping corresponding to the appropriations subcommittee. Each agency and program includes the base budget, a delineation of adjustments made to the base by the executive to determine the present law budget, and all executive, legislative branch, elected officials, and Board of Regents new proposals. LFD issues with any component of the Executive Budget are raised and discussed. The analysis also includes a discussion of issues not directly related to the Executive Budget, as appropriate. This section is intended to be a working document for joint appropriations subcommittees review and action on the General Appropriations Act. A more detailed explanation of the components of this analysis is included in that section's introduction in Volume I.

Proprietary Rate Setting and State Fund

HB 576 passed by the 1995 legislature removed the requirement that proprietary funds -- indirect service and enterprise funds, be appropriated by the legislature. Instead, the legislature will approve the rates charged for those services and products. HB 576 also required the Office of Budget and Program Planning to submit a report in the

Executive Budget on fees and charges, projected fund balances, and retained earnings and contributed capital for these service providers. Because the legislature does not appropriate funds for the operation of these programs, these reports and the LFD analysis of the reports are included in a separate section. The section also includes a discussion of the State Mutual Compensation Insurance Fund.

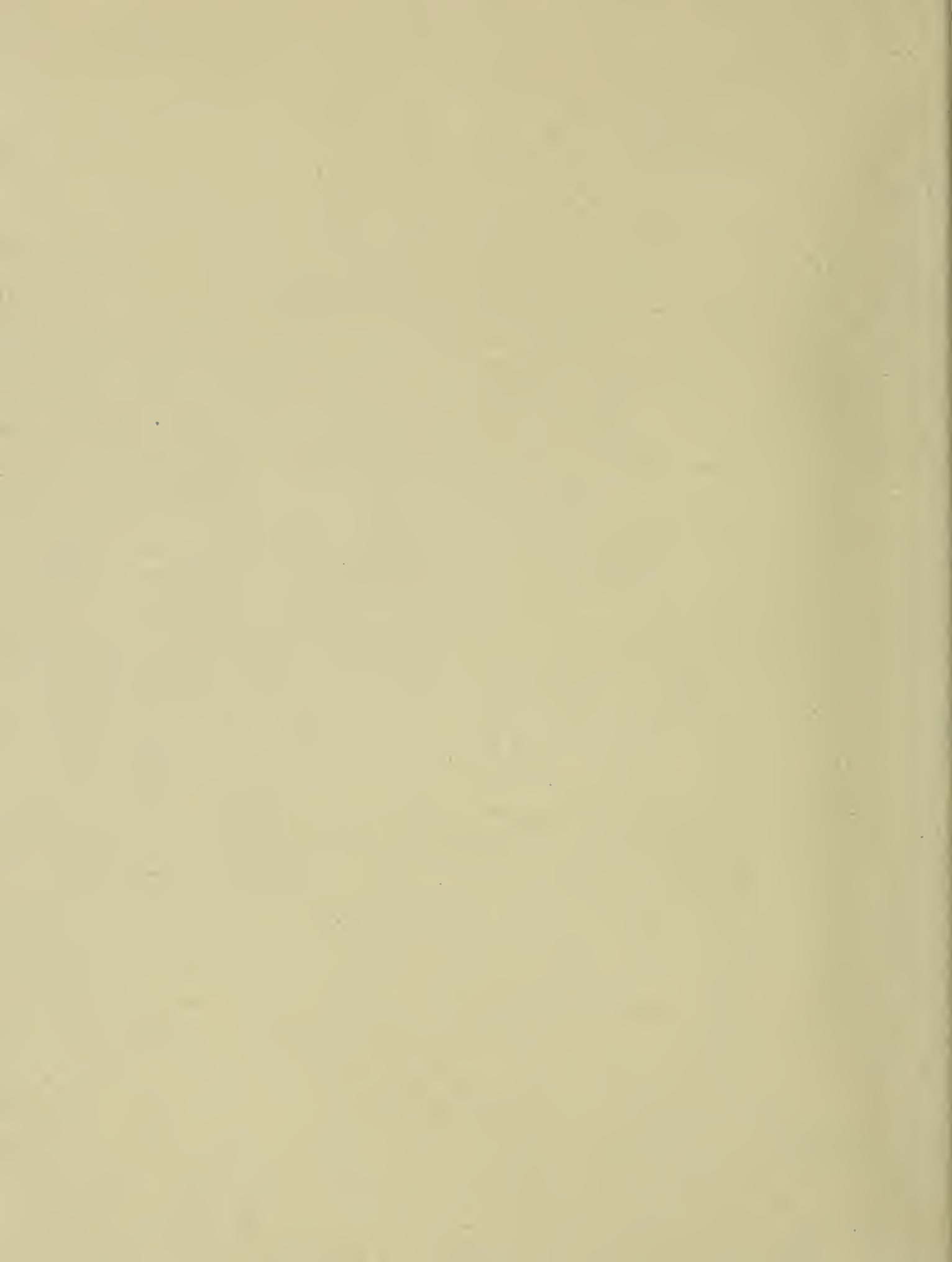
Budget Process

The agency budgets are presented in three tiers as required by statute. The three tiers are as follows: 1) base budget is "that level of funding authorized by the previous legislature"; 2) present law base is defined as "that additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature..."; and 3) new proposals are defined as "requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding...".

The base budget, the present law base, and new proposals are used in the budget presentations. The joint Executive Budget/LFD Budget Analysis, Volumes I and II include a detailed discussion of the present law LFD adjustments, providing the legislature the opportunity to use the base budget as the starting point for legislative review.



STATE FISCAL OUTLOOK



STATE FISCAL OUTLOOK

The 1997 legislature faces a budget outlook that, while challenging, is more positive than the declining revenues and funding shortfalls that dominated much of the past decade. The 1999 biennium general fund budget is adequately supported with present law revenues sufficient to fund present law budget requirements, and a surplus of \$65 million (excluding the effects of the windfall 1997 property tax reappraisal) to fund new initiatives. Further, the economy continues a moderate growth pattern and state revenues continue expanding at a moderate pace.

The legislature will, however, face a number of challenges and uncertainties in formulating the 1999 biennium spending plan. These include:

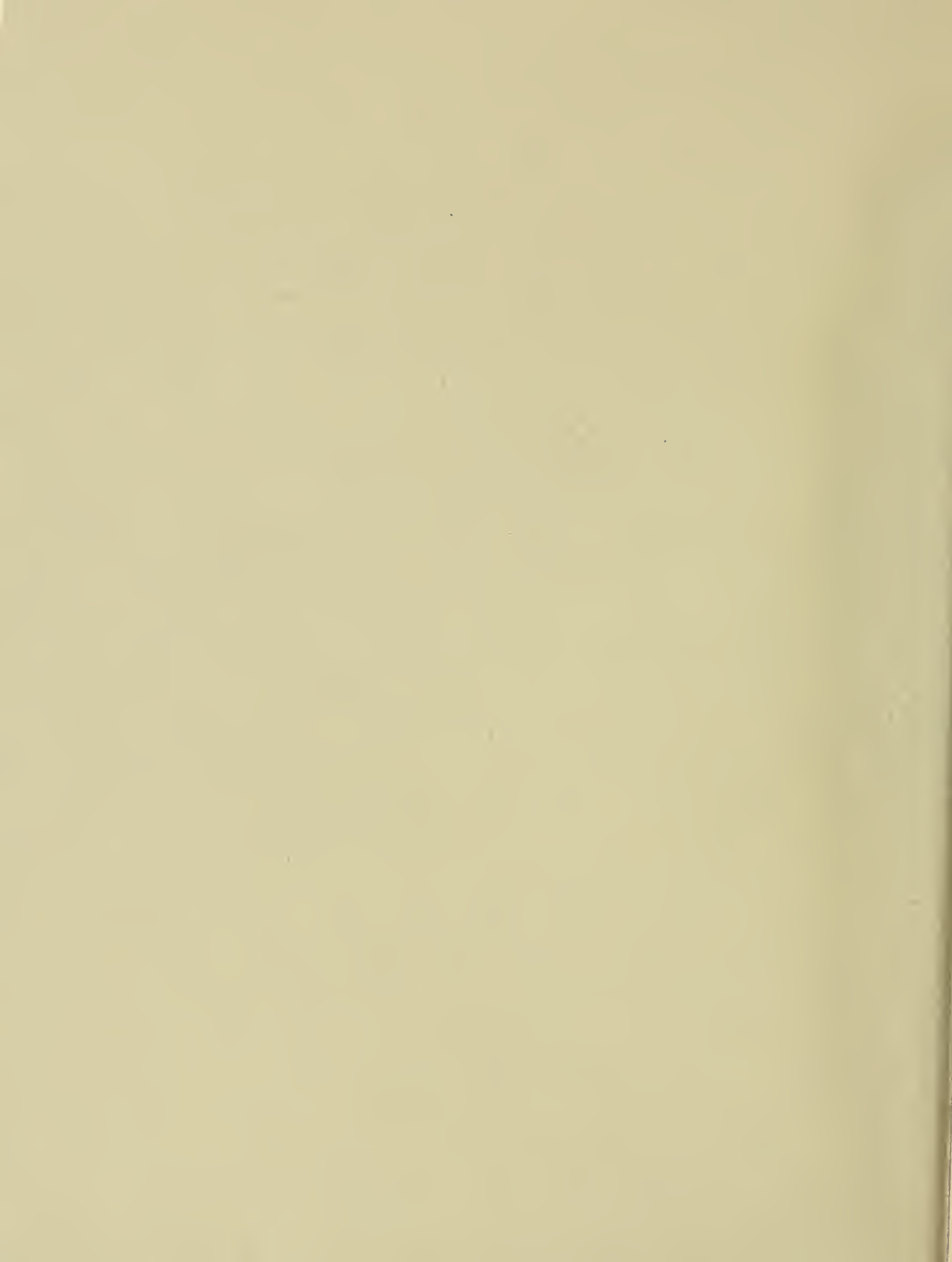
- Correctional system population growth trends of almost 8 percent per year that are the basis for an executive recommendation for a 50 percent growth in the Department of Corrections Budget.
- Court challenges to property tax appraisal methods, taxing jurisdiction on Indian reservations, and other taxation methods that could carry a huge price tag if not resolved in the state's favor, as well as permanently reducing the flow of current revenues.

- A growing school population that places strong pressure on state funding resources to address funding needs.
- Uncertainty about federal budget reforms in the area of human services, education, transportation, and other areas that make budget planning and development difficult.
- Total Executive Budget proposals (including new proposals) that exceed available revenues under present law based on economic assumptions adopted by the Revenue Oversight Committee.
- Infrastructure deficiencies that prompted the executive submission of one of the largest capital projects recommendations in state history, and a record proposal for bonding.

The mildly optimistic revenue picture depends on continued strength in income, corporate, and property taxes and investment earnings as well as other general fund revenue sources. These major sources account for over 80 percent of general fund revenue collections in the 1999 biennium. Any downturn in the economy that slows wage growth and business incomes would quickly translate into revenue collections below expectations.



GENERAL FUND SUMMARY



GENERAL FUND SUMMARY

Introduction

The general fund is the primary account that funds a majority of the general operations of state government. Total revenues to the account for the 1999 biennium are estimated to exceed \$2 billion. Balancing the general fund appropriations against anticipated revenues is a major challenge of each legislative session. Based on Revenue Oversight Committee (ROC) adopted revenue estimates, there are sufficient revenues to support the executive present law proposals, leaving an ending fund balance of \$138 million (including property tax reappraisal revenue). However, there are insufficient revenues to accommodate all of the executive new proposals. If the executive proposals are funded as requested, the ending balance in the general fund would be a deficit \$29 million. Since the Executive Budget is based on higher revenue estimates than those adopted by ROC, the executive projects an ending general fund balance of \$38 million.

This section provides a summary of the general fund as projected through the 1999 biennium. It begins with a reconciliation of the current (1997 biennium) projected fund balance in order to arrive at the beginning balance for the 1999 biennium. This section is followed by a summary of the 1999 biennium revenue estimates as adopted by ROC, including a graphic view of the significant revenue components. Additionally, a summary of the projected

present law general fund balance using ROC revenue estimates is shown. A projected general fund balance is also shown when the executive new proposals are included. Finally, the differences between the executive proposed fund balance and the balance using ROC revenues and LFD statutory disbursement computations are explained.

1997 Biennium General Fund Outlook

After completion of the 54th Legislative Session, the general fund balance was projected to be \$21.8 million. This balance was based on: 1) revenue estimates adopted in HJR 9; 2) LFD statutory appropriation estimates; and 3) all general fund appropriations authorized by the legislature. The 54th Legislature did not anticipate there would be any supplementals requested during the 1997 biennium.

As Table 1 shows, the revised general fund balance at the end of the 1997 biennium is projected to be \$15.6 million. The revised projection for the 1997 biennium general fund balance is based on: 1) revenue estimates adopted by ROC on December 2, 1996; 2) LFD statutory appropriation estimates; and 3) supplemental appropriation recommendations by the executive. This projected balance equals 0.8 percent of anticipated revenues for the 1997 biennium and is below the statutory trigger delineated in MCA 17-7-140, which requires the Governor take steps to reduce appropriations to maintain fund solvency.

GENERAL FUND SUMMARY

Table 1
Comparison of 1997 Biennium General Fund Balance
LFD Fiscal Report vs. LFD Budget Analysis
In Millions

Fund Balance Item	June 1995 Fiscal Report	January 1997 LFD Budget Analysis	Differences
Beginning Fund Balance	\$41.132	\$47.011	\$5.879
Estimated Revenues			
General Fund	1,952.424	1,946.014	(6.410)
Total Revenue Available	\$1,993.556	\$1,993.025	(\$0.531)
Estimated Disbursements			
State Agencies & University System	\$964.966	\$982.623	\$17.657
Distribution to Schools			
Direct State Aid	542.987	542.443	(0.544)
Guaranteed Tax Base	284.679	279.182	(5.497)
Transportation	21.106	20.763	(0.343)
Special Education	67.477	67.215	(0.262)
Other	<u>8.274</u>	<u>7.457</u>	<u>(0.817)</u>
Total to Schools	\$924.523	\$917.060	(\$7.463)
Tax Relief Appropriations			
Income Tax Refund	16.378	21.482	5.104
Property Tax Refund	15.000	10.578	(4.422)
Statutory Appropriations			
Personal Property Reimbursement	36.766	25.686	(11.080)
Debt Service	11.930	10.478	(1.452)
TRANS	3.256	5.081	1.825
Other	<u>9.063</u>	<u>15.511</u>	<u>6.448</u>
Total Statutory	\$61.015	\$56.756	(\$4.259)
Legislative Session Costs	4.808	5.050	0.242
Supplementals	0.000	13.789	13.789
Reversions	<u>(5.000)</u>	<u>(20.281)</u>	<u>(15.281)</u>
Total Disbursements	\$1,981.690	\$1,987.057	\$5.367
Adjustments	(2.303)	(2.200)	0.103
Residual Equity Transfer	12.196	11.874	(0.322)
Ending Fund Balance	\$21.759	\$15.642	(\$6.117)

GENERAL FUND SUMMARY

The overall decline in the projected general fund balance is due to several factors that have transpired since the adjournment of the 54th Legislative Session. While 1997 biennium general fund available revenues (revenues plus fund balance) are expected to be \$.5 million less than anticipated, total disbursements are expected to be \$.4 million more than authorized by the 54th Legislature. The primary reasons for the increased disbursements are: 1) proposed supplemental appropriations of \$13.8 million; 2) emergency appropriations of \$3.1 million; and 3) higher income tax relief refunds of \$.1 million. These increased costs were mitigated by lower distributions to public schools and less property tax refunds authorized by HB 497. As Table 1 shows, the combined impact of slightly lower revenues and greater disbursements is a net reduction in the projected fund balance of \$.1 million for the 1997 biennium.

General Fund Revenue Estimates

On December 2, 1996, ROC met to formally adopt economic assumptions relevant to the development of revenue estimates for fiscals 1997, 1998, and 1999. These assumptions were used by the LFD to produce the general fund revenue estimates shown in Table 2 and also in the preceding table (Table 1) to project the 1997 biennium ending balance in the general fund. Actual fiscal 1996 collections are shown, along with projections for fiscal 1997 through 1999. In accordance with 5-18-107, MCA, these estimates "constitute the legislature's current revenue estimates until amended or until final adoption of the estimates by both houses." A complete discussion of the economic assumptions and the major general fund revenue sources are included in the "LFD Economic Assumptions and Revenue Estimates" volume.

GENERAL FUND SUMMARY

Table 2
General Fund Revenue Estimates
Figures In Millions

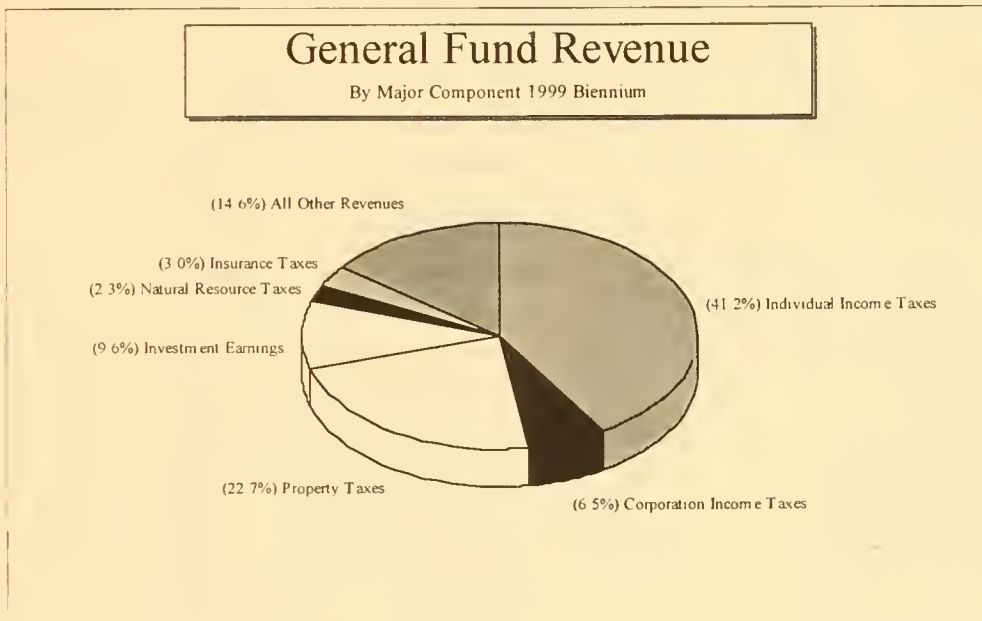
Source of Revenue	Actual Fiscal 1996	Estimated Fiscal 1997	Estimated Fiscal 1998	Estimated Fiscal 1999	Estimated Fiscal 96-97	Estimated Fiscal 98-99
Individual Income Tax	\$350.161	\$367.864	\$383.561	\$401.044	\$718.025	\$784.605
Corporation Income Tax	59.337	59.947	61.043	61.514	119.284	122.557
Long Range Bond Excess	52.369	51.704	53.145	54.753	104.073	107.898
TCA Interest Earnings	16.294	15.162	14.490	14.101	31.456	28.591
Permanent Trust Interest Earnings	41.532	41.969	42.611	43.218	83.501	85.829
Coal Severance Tax	9.714	10.006	10.403	10.240	19.720	20.643
Oil Severance Tax	9.730	10.175	9.745	9.645	19.905	19.390
Metalliferous Mines Tax	4.026	3.038	3.235	3.703	7.064	6.938
Natural Gas Severance Tax	0.936	0.877	0.778	0.776	1.813	1.554
Electrical Energy Tax	3.520	3.635	3.910	3.895	7.155	7.805
Telephone License Tax	5.712	5.305	5.431	5.560	11.017	10.991
Railcar Tax	0.780	4.457	1.103	1.103	5.237	2.206
Insurance Premiums Tax	26.133	28.438	30.612	32.525	54.571	63.137
Institution Reimbursements	16.142	15.471	15.803	16.193	31.613	31.996
Video Gaming Tax	10.666	11.115	11.572	12.062	21.781	23.634
Inheritance Tax	15.404	13.575	13.914	14.262	28.979	28.176
Liquor Excise Tax	7.203	6.636	6.779	6.939	13.839	13.718
Liquor Profits	6.300	6.322	5.455	5.604	12.622	11.059
Beer Tax	1.356	1.372	1.389	1.405	2.728	2.794
Wine Tax	0.846	0.835	0.836	0.837	1.681	1.673
Drivers' License Fee	2.574	2.681	2.721	2.765	5.255	5.486
Vehicle Fee	4.805	5.121	5.449	5.791	9.926	11.240
Motor Vehicle License Fee	9.801	9.841	9.814	9.820	19.642	19.634
Contractors Gross Receipts Tax	1.621	1.507	1.565	1.520	3.128	3.085
All Other Revenue	27.298	28.979	26.784	27.559	56.277	54.343
40 Mill Property Tax	81.754	75.962	85.158	84.381	157.716	169.539
55 Mill Property Tax	122.329	128.398	149.329	151.318	250.727	300.647
1.5 Mill Property Tax	0.000	1.101	1.242	1.261	1.101	2.503
Lottery Profit	7.859	7.736	7.266	6.838	15.595	14.104
Common School Interest & Income	42.032	42.493	42.238	43.998	84.525	86.236
US Federal Royalty	24.959	21.099	20.765	21.480	46.058	42.245
Total General Fund Revenue	\$963.193	\$982.821	\$1,028.146	\$1,056.110	\$1,946.014	\$2,084.256

GENERAL FUND SUMMARY

Beginning in fiscal 1996, all revenues previously deposited in the school equalization aid account are deposited directly to the general fund account. This accounting change (authorized by SB 83 of the 54th Legislature) had no impact on the ending general fund balance because the corresponding disbursements were appropriated from the general fund.

Chart 1 shows the revenue contribution to the general fund account by the most significant revenue components. During the 1999 biennium, over 70 percent of total general fund revenue will come from income and property taxes while almost 10 percent will be generated from investment earnings. Natural resource taxes are estimated to produce less than 3 percent of total general fund revenue during the 1999 biennium.

Chart 1



GENERAL FUND SUMMARY

1999 Biennium General Fund Outlook

Table 3 shows the projected available present law general fund balance for the 1999 biennium. Figures shown include the revenue estimates as adopted by ROC on December 2, 1996, and the cost of operating state government based on

present law requirements. These disbursement amounts are as estimated by the executive and are included in a number of subsequent tables. The present law amounts shown do not include any new proposals or initiatives recommended by the executive.

Table 3 1999 Biennium Present Law General Fund Balance LFD Budget Analysis In Millions						
Fund Balance Item	Present Law Fiscal 1998		Present Law Fiscal 1999		Present Law 1999 Biennium	
Beginning Fund Balance	\$15.642		\$72.419		\$15.642	
Estimated Revenues	1,028.146		1,056.108		2,084.254	
Total Revenue Available	\$1,043.788		\$1,128.527		\$2,099.896	
Estimated Disbursements						
Human Services	23.01%	224.232	22.64%	224.878	22.82%	449.110
Corrections	6.73%	65.600	6.76%	67.143	6.75%	132.743
Higher Education	11.30%	110.108	11.15%	110.805	11.23%	220.913
Public Schools	47.04%	458.331	47.23%	469.170	47.13%	927.501
General Government	9.62%	93.713	9.43%	93.676	9.52%	187.389
Statutory Appropriations	2.56%	24.947	2.53%	25.156	2.55%	50.103
Legislative Session Costs	0.00%	0.000	0.51%	5.050	0.26%	5.050
Supplementals	0.00%	0.000	0.00%	0.000	0.00%	0.000
Reversions	-0.26%	(2.500)	-0.25%	(2.500)	-0.25%	(5.000)
Total Disbursements	\$974.431		\$993.378		\$1,967.809	
Adjustments	0.000		0.000		0.000	
Residual Equity Transfer	3.062		3.060		6.122	
Total Available Fund Balance	\$72.419		\$138.209		\$138.209	

GENERAL FUND SUMMARY

The 1999 biennium ending general fund balance is projected to be \$138.2 million before any new proposals are considered. This balance is a significant improvement over past biennia primarily because of the impact of residential and commercial property reappraisal. New property values are scheduled to be implemented beginning in fiscal 1998 and will substantially increase state revenues due to the assessment of the 45 and 55 statewide mill levies. It is estimated that general fund revenues will increase by approximately \$73.0 million during the 1999 biennium as a result of class 4 property reappraisal. Even without the impact of reappraisal, the present law general fund balance

would be approximately \$65.2 million by the end of the 1999 biennium.

Table 4 shows the projected general fund balance with the executive new proposals and initiatives included. The executive new proposals are categorized as either a revenue or disbursement type. The total for all of the executive new proposals is \$167.2 million. This amount combined with the available present law fund balance results in a negative ending fund balance of \$29.0 million. When an ending fund balance reserve of \$35.0 million is included, the deficit increases to \$64.0 million.

Table 4 1999 Biennium General Fund Balance With Executive New Proposals In Millions		
	New Proposal 1999 Biennium	
Beginning Present Law Balance		\$138.209
Executive Revenue Proposals		
Property Tax Relief		(71.000)
State Fund Equity Transfer		20.000
Natural Resource Damage Loan		(0.090)
Total Revenue Proposals		(\$51.090)
Executive Disbursement Proposals		
Human Services	15.98 %	18.554
Corrections	23.17 %	26.915
Higher Education	4.09 %	4.753
Public Schools	26.83 %	31.160
General Government	10.74 %	12.472
Debt Service for Buildings	3.87 %	4.500
Debt Service/Information Technolog	2.58 %	3.000
Pay Proposal	12.65 %	14.687
Competition Initiative	0.09 %	0.100
Total Disbursement Proposals		\$116.141
Total Executive New Proposals		(\$167.231)
Ending Balance Before Reserve		(\$29.022)
Proposed Ending Fund Reserve		(\$35.000)
Deficit		(\$64.022)

GENERAL FUND SUMMARY

Differences from Executive Proposal

The Executive Budget as submitted projects an ending fund balance of \$38.6 million after funding all executive present law adjustments and new proposals. This contrasts with Table 4, which shows a negative general fund balance of \$29.0 million when using ROC revenue estimates and LFD estimates for statutory appropriations, and funding all executive present law adjustments and new proposals. Table 4 shows a proposed ending fund reserve of \$35.0 million, which results in a deficit of \$64.0 million if all executive

proposals are to be funded. An adequate reserve is necessary for unexpected occurrences including fire suppression costs, supplemental appropriations, or lower than expected revenue collections.

The \$64.0 million difference between the Executive Budget proposal and Table 4 is shown in Table 5. As shown in Table 5, nearly all of the difference, \$61.7 million, is due to lower revenue estimates adopted by ROC are explained in the next session.

Table 5
Differences from Executive Budget
Fiscal 97, 98, 99 (In Millions)

Category	Difference
Beginning Fund Balance	\$0.351
Individual Income Tax	(11.839)
Corporation Income Tax	(12.792)
Long-Range Bond Excess	(4.983)
Inheritance Tax	(4.600)
Drivers' License Fee	(3.715)
Railcar Tax	(4.837)
Property Tax	(11.024)
All Other Revenue	<u>(7.929)</u>
Total Revenue Differences	(\$61.719)
Anticipated Disbursements	(5.785)
Residual Equity Transfer	(0.437)
Natural Resource Damage Loan	0.011
Fund Balance Reserve Difference	<u>3.558</u>
Total All Differences	(\$64.021)

GENERAL FUND SUMMARY

Explanation of Differences

Individual Income Tax - ROC adopted higher growth rates for two major income tax credits - the homeowner-renter credit and the credit for taxes paid to other states - than were recommended by the executive.

Corporation Income tax - Based on more current economic data, ROC adopted lower growth rates for U.S. corporate profits (a variable closely correlated with Montana corporate profits) than recommended by the executive.

Long Range Bond Excess - Lower income and corporation tax estimates adopted by ROC resulted in lower bond excess revenue since a portion of these revenue sources is deposited to this account.

Inheritance Tax - ROC adopted a lower inheritance tax base than was recommended by the executive. ROC excluded two large payments in the fiscal 1996 tax base since they were deemed unusual and similar payments were unlikely to occur in the next three year period.

Drivers' License Fee - ROC adopted total drivers' license fee revenue that was similar to the amount recommended by the executive. However, the distribution of driver's license revenue adopted by ROC was based on a revised distribution schedule presented to the Legislative Finance Committee at its November meeting. The executive estimates were based on an allocation mechanism which is no longer in use.

Railcar Tax - One of two litigation cases disputing the railcar tax has been settled, but a second case remains in litigation. ROC declined to include in its revenue estimates projected revenue from the disputed case, whereas the executive recommended that the disputed revenue be included.

Property Tax - Property tax revenue between fiscal 1997 and fiscal 1999 will be impacted by the reduction in the statewide tax base as a result of SB 417. This legislation reduced the personal property tax rate from 9 percent to 6 percent between tax years 1996 and 1998. The state will

receive less property tax revenue due to the reduction in the tax base, and will also receive less property tax revenue because reimbursements to local taxing jurisdictions are deducted from the 40 mill revenue received by the state. ROC adopted higher SB 417-related reimbursement amounts than were recommended by the executive.

All Other Revenue - The lower estimates for other revenue adopted by ROC were primarily due to: 1) lower growth rates for highway patrol fines, 2) a reduction in the amount transferred to the general fund from the capital land grant account, and the removal from the fiscal 1996 base of a one-time accounting entry made by the Department of Public Health and Human Services.

Anticipated disbursement differences from the executive proposal total \$5.8 million. This difference is primarily in estimations of statutory appropriations, public school BASE funding, and debt service requirements.

The remaining significant difference is due to the projected fund balance reserve. The executive recommends an ending fund balance reserve of \$38.8 million as compared to \$35.0 million used in Table 4.

In summary, if ROC economic assumptions are adopted by the legislature, the general fund balance would be \$138 million if only present law services were funded. A deficit in the general fund of \$29.0 million would occur if all executive proposals are adopted. This would therefore require either a reduction in expenditures, additional revenues, or a combination of both, of at least \$29.0 million to eliminate the anticipated deficit. As shown above, to achieve an ending fund reserve of \$35 million would require \$64.0 million in expenditure reductions, revenue increases, or a combination of both.

Fund Balance

Table 6 shows the detailed general fund balance at present law levels.

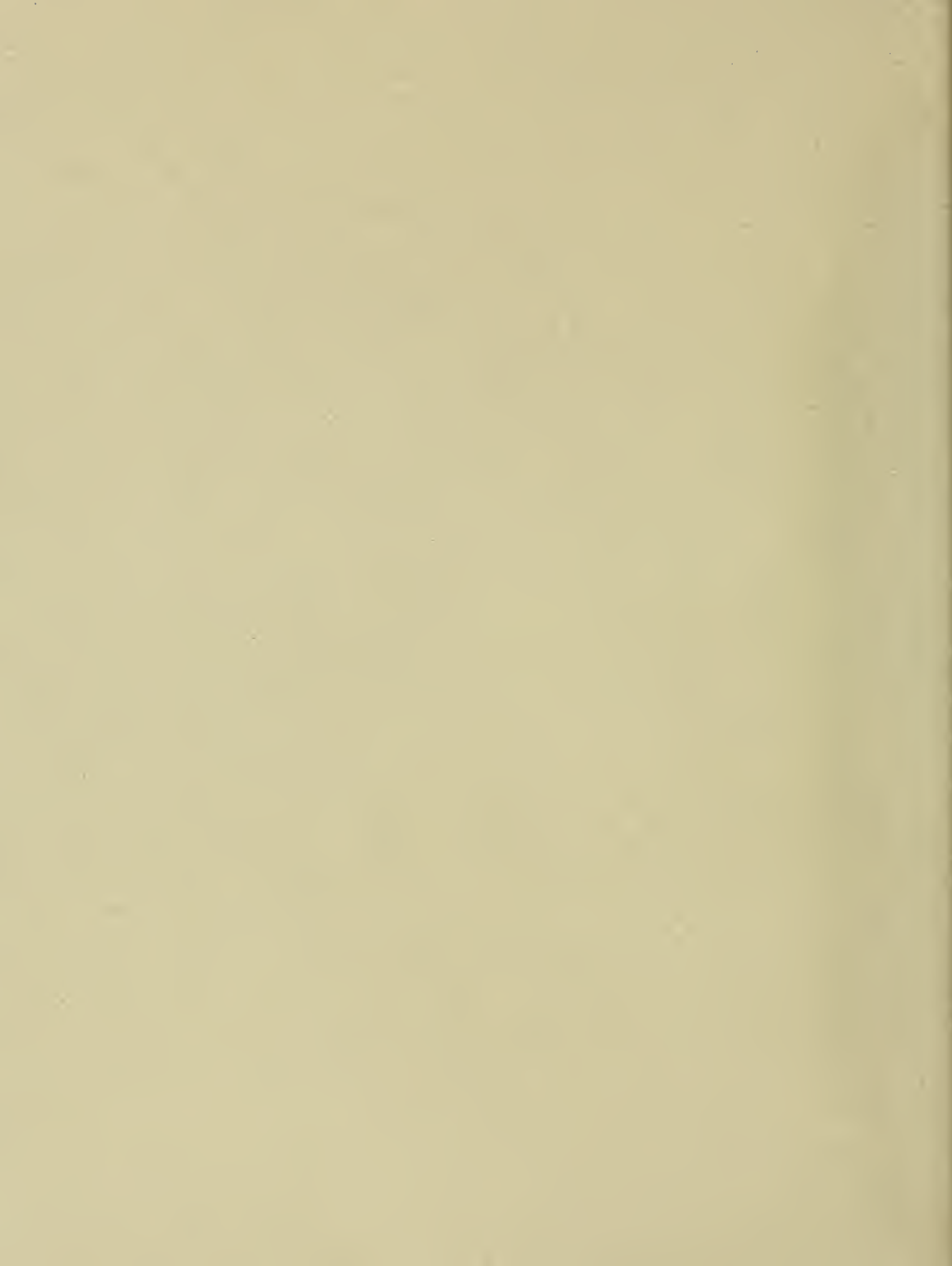
GENERAL FUND SUMMARY

Table 6
Estimated General Fund Balance
Present Law
Figures In Millions

	Actual Fiscal 1996	Estimated Fiscal 1997	Estimated Fiscal 1998	Estimated Fiscal 1999	Estimated Fiscal 96-97	Estimated Fiscal 98-99
Beginning Fund Balance	\$47.011	\$30.145	\$15.642	\$72.418	\$47.011	\$15.642
Receipts						
Estimated Receipts	963.193	982.821	1,028.146	1,056.108	1,946.014	2,084.254
Total Available	\$1,010.204	\$1,012.966	\$1,043.788	\$1,128.526	\$1,993.025	\$2,099.896
Disbursements						
General Appropriations	940.162	931.751	951.985	965.671	1,871.913	1,917.656
School Equalization Account						
Language Appropriations		0.052			0.052	
Pay Plan Appropriations		11.613			11.613	
Statutory Appropriations						
Income Tax Refund	21.482				21.482	
Property Tax Reimbursement	12.843	12.843	12.843	12.843	25.686	25.686
Debt Service	6.353	4.125	4.058	3.951	10.478	8.009
TRANS Interest	3.221	1.860	1.806	1.780	5.081	3.586
Retirement Benefits						
District Court Reimbursemen	4.703	5.121	5.449	5.791	9.824	11.240
Depository Banking Services	0.715	0.785	0.785	0.785	1.500	1.570
DUI Testing Equipment						
Disaster/Emergency	0.704	3.102			3.806	
Cash Management	0.006	0.375	0.006	0.006	0.381	0.012
Miscellaneous Appropriations		9.839			9.839	
Continuing Appropriations		16.844			16.844	
Supplementals						
All Other Agencies		13.789			13.789	
School Equalization Account						
Feed Bill		5.050		5.050	5.050	5.050
Reversions	(5.192)	(15.089)	(2.500)	(2.500)	(20.281)	(5.000)
Anticipated Disbursements	\$984.997	\$1,002.060	\$974.432	\$993.377	\$1,987.057	\$1,967.809
Adjustments	(2.200)				(2.200)	
State Equalization Balance Transfer						
Residual Equity Transfer	7.138	4.736	3.062	3.060	11.874	6.122
Ending Fund Balance	<u>\$30.145</u>	<u>\$15.642</u>	<u>\$72.418</u>	<u>\$138.209</u>	<u>\$15.642</u>	<u>\$138.209</u>



EXECUTIVE BUDGET SUMMARY



EXECUTIVE BUDGET PRIORITIES

As outlined in the preceding section, a relatively optimistic budget picture has brightened the general fund economic outlook, leaving sufficient present law revenue sources to fund present law as well as a surplus for new initiatives. This section examines the Governor's response to the state's fiscal outlook and characterizes the Executive Budget in major categories. It provides an overview of the Executive Budget, including budget priorities, budget trends (comparisons), a present law and new proposal summary, the executive revenue and tax policy initiatives, and a summary of expenditure proposals by fund type, function, and expenditure type. In addition, it provides a discussion and analysis of global executive budget proposals, including the pay plan, public education funding, and fiscal 1997 supplemental requests.

Budget Priorities

The executive is recommending some notable fiscal and policy directive proposals. Some highlights of the Executive Budget are as follows:

- Over \$50 million and an over 50 percent increase in the Department of Corrections budget in response to a projected 8 percent per year growth in the corrections population.
- An increase in the BASE aid formula for funding K-12 education in fiscal 1999.
- A proposal to utilize over \$20 million each year of coal severance tax trust funds to fund infrastructure, research and development, and preservation projects.
- An intent to mitigate the impacts of the 1997 property tax reappraisal.
- A long-range building plan of over \$200 million for new construction of state buildings and maintenance, new adult and juvenile correction facilities, various grant programs, and information

technology infrastructure.

- A nearly 15 percent increase in state personnel for public safety and law enforcement.

The Governor's Budget reflects an increase of 5.7 percent general fund and 7.0 percent total funds over the 1997 biennium. Over 48 percent of the total general fund increase and almost 17 percent of the total funds increase is for the corrections budget, and the corrections budget grows from about 5.4 percent to 7.7 percent of the total general fund budget. Education and human services, despite increases in both areas, receive a lesser share of the total budget.

The Governor's budget is based on an economic forecast that assumes the Montana economy will expand at a moderate to brisk pace while maintaining low inflation. The executive expects the economy to create over 15,000 new jobs in the 1999 biennium. The budget also reflects an expectation of low unemployment rates and a slow growth in wages and salaries. In general, the Revenue Oversight Committee (ROC), in adopting legislative economic assumptions at its December 1996 meeting, was somewhat less optimistic than the executive, reflected in revenue estimates that are over \$60 million below the executive estimates. Therefore, as discussed in more detail in the following section, the Executive Budget is not in balance using ROC revenue estimates.

General Fund Balance Summary

For reference, the following table is the executive general fund balance summary as prepared by the Office of Budget and Program Planning. (Note: the table does not accurately portray the breakdown of proposals by "Present Law" and "Governor's Recommendations" categories, as a number of new proposals have been included in "Present Law". References in this report to "present law" and "new proposal" amounts will not reconcile to this table.)

EXECUTIVE BUDGET PRIORITIES

Office of Budget and Program Planning General Fund Balance Summary For 1999 Biennium (In Millions)				
	Actual FY 96	Projected FY 97	Projected FY 98	Projected FY 99
<u>PRESENT LAW AND GENERAL BUDGET RECOMMENDATIONS</u>				
Beginning Fund Balance	\$45.884	\$29.794	\$32.175	\$88.621
<u>Revenues</u>				
Current Law Estimate	\$963.193	\$996.106	\$1,047.360	\$1,085.330
Total Available	1,009.077	1,025.900	1,079.535	1,173.951
<u>Disbursements</u>				
General Appropriations	\$934.969	\$931.743	\$979.731	\$1,017.152
Pay Plan Appropriations		11.613	4.697	9.990
Statutory Appropriations				
Property Tax Reimbursement	12.843	12.843	12.843	12.843
Debt Service	6.356	2.497	4.895	4.804
Cash Management Interest	0.006	0.020	0.020	0.020
TRANS Interest	3.217	1.865	1.926	1.903
District Court Reimbursements	4.703	5.185	5.546	5.997
Banking Services	0.715	0.715	0.715	0.715
Emergency Assistance	0.706	3.097		
Refund Income Tax Surplus	21.482	0.000		
Miscellaneous Appropriations		9.890		
Supplemental Appropriations		13.789		
Continuing Appropriations		16.844		
Feed Bill		5.000	0.000	5.000
Reversions		(15.900)	(5.000)	(5.000)
Total Disbursements	\$984.997	\$999.201	\$1,005.373	\$1,053.424
Adjustments	(1.424)	0.000		
Residual Equity Transfer	7.138	5.476	12.876	12.943
Ending Fund Balance	\$29.794	\$32.175	\$87.038	\$131.887
<u>GOVERNOR'S RECOMMENDATIONS</u>				
Adjusted Beginning Fund Balance		\$29.794	\$32.164	\$38.602
<u>Revenues</u>				
Reappraisal Property Tax Relief			(\$35.500)	(\$35.500)
Natural Resource Damage Loan		(0.011)	(0.045)	(0.045)
Total		(\$0.011)	(\$35.545)	(\$35.545)
<u>Expenditures</u>				
Debt Service on Long Range Buildings			\$2.250	\$2.250
Debt Service on Information Technology			1.500	1.500
K-12 GTB Appropriation for Tax Relief			10.663	3.965
Competition Initiative			0.050	0.050
Total		\$0.000	\$14.463	\$7.765
Adjusted Ending Fund Balance		\$32.164	\$37.019	\$38.558

BIENNIAL BUDGET COMPARISONS

Introduction

This section summarizes the executive recommendations in comparison to expenditures for the preceding biennium.

The executive is recommending a 1999 biennium budget that is a \$111.6 million, or 5.7 percent, increase in general fund and a \$322.1 million, 7.0 percent, increase in total state spending. The executive proposal for general fund and total spending increases is funded with existing sources of revenue, and the increased spending includes significant new proposals/initiatives in excess of \$200 million for the 1999 biennium.

Although general fund recommendations increase over 5 percent, the largest increase is in state special funds (over 15 percent), primarily due to additional expenditures in: 1) the university system, primarily for increased enrollment and faculty salaries; 2) the Department of Transportation, primarily for increased construction; and 3) the Department of Public Health and Human Services, primarily for the mental health managed care contract. Expenditure increases are discussed in more detail in the "Expenditure Proposals" section of this volume.

Comparison Methodology

The state budget is complex, and the methods used to compute the comparisons can vary considerably and be subject to manipulation. The Legislative Finance Committee (LFC) developed a budget comparisons methodology during the interim that measures budget performance using total state expenditures for state general operations funded by taxpayer taxes, licenses, and fees. The methodology addresses issues of proper representation, fairness, balance, and consistency. The LFC will introduce a committee bill to the 1997 legislature to make the proposed methodology a statutory requirement. This would ensure consistency of application and avoid manipulation of comparison information.

The comparisons on the following pages were prepared using the LFC methodology. A discussion of budget comparison methodology and the LFC recommendation is included in the "Other Fiscal Issues" section of this volume,

on page 76. The June 1996 interim report adopted by the LFC on budget comparison methodology is available from the Legislative Fiscal Division.

Comparison to 1997 Biennium

Tables 7 and 8 show a comparison of expenditures from the 1997 to 1999 biennia for general fund and total funds. As shown in the tables, the largest increases are in human services, corrections, and education, with the Department of Corrections consuming almost 48 percent of the entire general fund increase.

The tables are divided into three sections¹:

- 1) The top part of the table includes all appropriations recommended for inclusion in HB 2 (the general appropriations act).
- 2) Because HB 2 does not include all appropriations authorized by the legislature, the second part of the table includes additional executive recommendations. This section is referred to as "Comparable Adjustments", as they are adjustments that can be compared from one biennium to the other. The total shown in the "Total Executive Budget Fiscal 98-99" (1997 biennium) column represents all recommendations made by the executive, except for the non-cash portion of Long-Range Building proposals. (These proposals are specifically excluded from the comparisons because of the spending and timing variability that occurs with most building projects. The expenditures are instead reflected by the debt service paid over the term of any bonding/leasing agreement.) However, the total in the "Total Fiscal 96-99" (1997 biennium) column does not represent all contingent appropriations in that biennium, which are included in the third section.

¹1997 biennium budget figures consist of actual fiscal 1996 adjusted expenditures and fiscal 1997 adjusted appropriations. The 1997 biennium totals have been adjusted for agency reorganizations, proprietary fund changes (HB 576) and earmarking/statutory appropriation changes (SB 83). This comparison method follows the LFC prescribed budget comparison methodology. The emphasis is on using comparable levels of expenditure in each biennium, except as noted for "noncomparable" adjustments.

BIENNIAL BUDGET COMPARISONS

Table 7
General Fund Comparison
97 Biennium Versus Executive Budget 99 Biennium

Agcy Code	Agency Name	Total Adjusted Fiscal 96-97	Total Exec. Budget Fiscal 98-99	Difference 99 Biennium - 97 Biennium	% Change 97 Biennium 99 Biennium
1104	Legislative Branch	10,342,069	11,638,525	1,296,456	12.54 %
1112	Consumer Counsel				
2110	Judiciary	12,227,455	14,085,454	1,857,999	15.20 %
2115	Montana Chiropractic Legal Panel				
3101	Governors Office	5,268,100	5,841,564	573,464	10.89 %
3201	Secretary of States Office	38,246		(38,246)	-100.00 %
3202	Commissioner of Political Practices	628,772	551,425	(77,347)	-12.30 %
3401	State Auditors Office	4,265,430	4,751,323	485,893	11.39 %
3501	Office of Public Instruction	928,889,184	944,034,196	15,145,012	1.63 %
4107	Crime Control Division	4,273,988	4,996,586	722,598	16.91 %
4110	Department of Justice	30,534,589	35,576,656	5,042,067	16.51 %
4201	Public Service Regulation				
5100	Montana University System	221,088,160	225,666,176	4,578,016	2.07 %
5101	Board of Public Education	237,242	248,206	10,964	4.62 %
5113	School for the Deaf & Blind	5,871,010	5,980,825	109,815	1.87 %
5114	Montana Arts Council	247,892	977,903	730,011	294.49 %
5115	Library Commission	2,849,096	3,118,322	269,226	9.45 %
5116	Advisory Council for Vocational Education				
5117	Historical Society	2,755,988	3,074,413	318,425	11.55 %
5201	Department of Fish, Wildlife & Parks	817,523	853,008	35,485	4.34 %
5301	Department of Environmental Quality	3,395,555	4,216,429	820,874	24.17 %
5401	Department of Transportation	499,800	500,000	200	0.04 %
5603	Department of Livestock	906,605	1,078,799	172,194	18.99 %
5706	Department of Natural Resources & Conservation	26,562,666	26,876,451	313,785	1.18 %
5801	Department of Revenue	45,558,228	51,020,464	5,462,236	11.99 %
6101	Department of Administration	6,380,606	10,794,378	4,413,772	69.17 %
6102	Appellate Defender Commission	205,307	314,393	109,086	53.13 %
6104	Public Employees Retirement Board				
6105	Teachers Retirement Board				
6107	Long-Range Building				
6201	Department of Agriculture	874,240	1,000,406	126,166	14.43 %
6401	Department of Corrections	105,919,978	159,657,606	53,737,628	50.73 %
6501	Department of Commerce	3,311,142	5,028,242	1,717,100	51.86 %
6602	Department of Labor & Industry	2,519,594	2,562,129	42,535	1.69 %
6701	Department of Military Affairs	4,216,793	4,775,058	558,265	13.24 %
6901	Department of Public Health & Human Services	447,313,095	467,664,144	20,351,049	4.55 %
Totals		\$1,877,998,353	\$1,996,883,080	\$118,884,727	6.33 %

Comparable Adjustments

Employee Pay Proposal	Included above	14,687,000	14,687,000		
Income Tax Refunds	21,482,000		(21,482,000)	-100.00 %	
Residential Property Tax Refunds	10,578,000		(10,578,000)	-100.00 %	
Statutory Appropriations	27,264,000	34,041,000	6,777,000	24.86 %	
University System Tuition & Fees					
Local Government Distributions	25,686,000	25,686,000			
Miscellaneous Appropriations		14,728,000	14,728,000		
Legislative Session Costs	5,050,000	5,000,000	(50,000)	-0.99 %	
One-Time Only Costs	21,685,000		(21,685,000)	-100.00 %	
Anticipated Reversions	(20,281,000)	(10,000,000)	10,281,000	-50.69 %	
Total With Comparable Adjustments	\$1,969,462,353	\$2,081,025,080	111,562,727	5.66 %	

Non Comparable Adjustments

Budget Amendments					
Supplementals	13,789,000		(13,789,000)	-100.00 %	
Disaster/Emergency Costs	3,806,000		(3,806,000)	-100.00 %	
Total With All Adjustments	\$1,987,057,353	\$2,081,025,080	\$93,967,727	4.73 %	

BIENNIAL BUDGET COMPARISONS

Table 8
All Funds Comparison
97 Biennium Versus Executive Budget 99 Biennium

Agcy Code	Agency Name	Total Adjusted Fiscal 96-97	Total Exec. Budget Fiscal 98-99	Difference 99 Biennium - 97 Biennium	% Change 97 Biennium 99 Biennium
1104	Legislative Branch	14,215,475	15,582,065	1,366,590	9.61 %
1112	Consumer Counsel	1,871,438	2,041,969	170,531	9.11 %
2110	Judiciary	15,052,632	17,532,567	2,479,935	16.48 %
2115	Montana Chiropractic Legal Panel	27,797	28,000	203	0.73 %
3101	Governors Office	5,987,843	6,395,301	407,458	6.80 %
3201	Secretary of States Office	38,246		(38,246)	-100.00 %
3202	Commissioner of Political Practices	628,772	551,425	(77,347)	-12.30 %
3401	State Auditors Office	5,263,154	6,094,884	831,730	15.80 %
3501	Office of Public Instruction	1,060,799,171	1,094,692,212	33,893,041	3.20 %
4107	Crime Control Division	13,954,883	19,129,569	5,174,686	37.08 %
4110	Department of Justice	72,147,258	78,984,901	6,837,643	9.48 %
4201	Public Service Regulation	4,206,817	6,012,204	1,805,387	42.92 %
5100	Montana University System	456,271,871	495,600,423	39,328,552	8.62 %
5101	Board of Public Education	544,062	597,702	53,640	9.86 %
5113	School for the Deaf & Blind	6,586,546	6,585,315	(1,231)	-0.02 %
5114	Montana Arts Council	1,530,828	1,731,122	200,294	13.08 %
5115	Library Commission	6,254,381	6,990,939	736,558	11.78 %
5116	Advisory Council for Vocational Education	332,090		(332,090)	-100.00 %
5117	Historical Society	5,607,071	6,316,987	709,916	12.66 %
5201	Department of Fish, Wildlife & Parks	69,591,587	83,652,987	14,061,400	20.21 %
5301	Department of Environmental Quality	54,230,356	60,011,210	5,780,854	10.66 %
5401	Department of Transportation	692,504,002	688,012,049	(4,491,953)	-0.65 %
5603	Department of Livestock	12,136,857	12,834,900	698,043	5.75 %
5706	Department of Natural Resources & Conservation	48,869,891	55,765,310	6,895,419	14.11 %
5801	Department of Revenue	48,346,997	54,213,839	5,866,842	12.13 %
6101	Department of Administration	9,800,520	12,851,499	3,050,979	31.13 %
6102	Appellate Defender Commission	205,307	314,393	109,086	53.13 %
6104	Public Employees Retirement Board				
6105	Teachers Retirement Board				
6107	Long-Range Building	7,232,000	14,709,000	7,477,000	103.39 %
6201	Department of Agriculture	16,065,122	18,284,300	2,219,178	13.81 %
6401	Department of Corrections	111,013,204	164,382,718	53,369,514	48.07 %
6501	Department of Commerce	80,583,771	95,434,086	14,850,315	18.43 %
6602	Department of Labor & Industry	80,310,710	78,935,159	(1,375,551)	-1.71 %
6701	Department of Military Affairs	13,732,242	15,651,522	1,919,280	13.98 %
6901	Department of Public Health & Human Services	1,415,934,745	1,541,412,820	125,478,075	8.86 %
Totals		\$4,331,877,646	\$4,661,333,377	\$329,455,731	7.61 %

Comparable Adjustments

Employee Pay Proposal	Included above	34,949,000	34,949,000		
Income Tax Refunds	21,482,000		(21,482,000)	-100.00 %	
Residential Property Tax Refunds	10,578,000		(10,578,000)	-100.00 %	
Statutory Appropriations	64,539,000	72,993,000	8,454,000	13.10 %	
University System Tuition & Fees	(170,297,000)	(204,314,000)	(34,017,000)	19.98 %	
Local Government Distributions	367,848,000	379,899,000	12,051,000	3.28 %	
Miscellaneous Appropriations		14,728,000	14,728,000		
Legislative Session Costs	5,050,000	5,000,000	(50,000)	-0.99 %	
One-Time Only Costs	21,685,000		(21,685,000)	-100.00 %	
Anticipated Reversions	(20,281,000)	(10,000,000)	10,281,000	-50.69 %	
Total With Comparable Adjustments	\$4,632,481,646	\$4,954,588,377	322,106,731	6.95 %	

Non Comparable Adjustments

Budget Amendments	12,209,000		(12,209,000)	-100.00 %	
Supplementals	15,475,000		(15,475,000)	-100.00 %	
Disaster/Emergency Costs	3,806,000		(3,806,000)	-100.00 %	
Total With All Adjustments	\$4,663,971,646	\$4,954,588,377	\$290,616,731	6.23 %	

Note: Comparisons do not include disbursements for Long-Range Building projects

BIENNIAL BUDGET COMPARISONS

3) The third section, "Noncomparable Adjustments" includes all 1997 biennium appropriations, including budget amendments, supplemental appropriations, and disaster/emergency costs that cannot be estimated for the next biennium. Because 1999 biennium expenditures will most likely occur in this category, but cannot be estimated at this time, they are excluded from the comparable adjustments total. Consequently, the increase of 4.7 percent shown for general fund and 6.2 percent for total funds does not represent a true picture of potential growth between biennia.

House Bill 2 Comparisons

As shown in Table 7, the executive general fund recommendations for HB 2 increase by \$118.9 million, or 6.3 percent, over the 1997 biennium. This includes \$39.7 million in present law adjustments and \$79.2 million in new proposals. Total funds (Table 2) increase by \$329.5 million, or 7.6 percent, including approximately \$147 million in present law adjustments and \$184 million in new proposals. See page 24 of this volume for a table and discussion of present law adjustments and new proposals. The largest general fund increases are in: 1) corrections, due to the expanding population and other initiatives; 2) human services, primarily for medicaid benefits, provider rate increases, and program expansion; and 3) education, due to projected enrollment increases and a recommended K-12 schedule increase. The increase in total funds is due to these same factors, plus additional university tuition and highway construction, and additional federal funds, primarily in human services and education. A further discussion of these increases is included in the "Expenditure Proposals" section of this volume. An agency by agency description of all adjustments is included in the individual agency narratives in Volumes 1 and 2 of this report.

Total Comparable Adjustments

Total comparable adjustments include all miscellaneous appropriations (including tax rebates, the employee pay plan bill, and other appropriations bills), statutory appropriations, and other expenditures and adjustments. The executive recommends \$111.6 million increased general fund expenditures for the 1999 biennium as compared to the 1997

biennium, or an increase of 5.7 percent. The increase in total state fund spending over comparable 1997 biennium spending is \$322.1 million, or 7.0 percent. While comparable expenditures decline from the HB 2 level for general fund (primarily due to income and property tax refunds that occurred in the 1997 biennium, but are not included in 1999 biennium recommendations), total fund growth also declines. This decrease is also due to income and property tax refunds. An additional reason for the decline is the elimination of one-time costs that occurred in the 1997 biennium.

Non-Comparable Expenditures

"Noncomparable Adjustments" show an increase of 4.7 percent general fund and 6.2 percent total funds between biennia. However, as stated earlier, this comparison tends to be distorted by the lack of comparable information for the 1999 biennium. This section and these comparisons are shown for informational purposes and to complete the listing of 1997 biennium expenditures.

Comparison Issues

There are two issues related to budget comparisons that may cause confusion or misinterpretation. Each issue is discussed below.

House Bill 2 Comparisons

The Overview volume (pages 20 and 21) depicts a budget comparison methodology as directed by the LFC. Since this proposed technique deviates from the current legislative process of establishing amounts for the general appropriations act (HB 2), Table 9 shows a reconciliation between the total funds LFC budget comparison amounts and the HB 2 total funds comparison shown in the General Reference section and the discussion of expenditure proposals in this volume. The adjustments shown in Table 9 are based on the prescribed methodology directed by the LFC.

BIENNIAL BUDGET COMPARISONS

Table 9		
	1997 Biennium	1999 Biennium
All Funds Comparison		
Traditional Method	\$4,328,682,240	\$4,660,249,072
Less		
Expendable Trust Fund	(\$151,730)	(\$9,145,548)
Non-Expendable Trust Fund	(3,884,864)	(4,479,147)
Plus		
Cash Building Program	<u>\$7,232,000</u>	<u>\$14,709,000</u>
All Funds Comparison		
LFC Directive	<u>\$4,331,877,646</u>	<u>\$4,661,333,377</u>

Comparisons vs. Budget Base Adjustments

The Overview volume compares the 1999 biennium Executive Budget to the 1997 biennium actual expenditures and adjusted fiscal 1997 appropriations. This method is as prescribed by the Legislative Finance Committee, and upholds the concept of a comparison of the total state budget from biennium to biennium, particularly due to the cyclical nature of annual budgets. However, because the Executive Budget is developed using a statutorily defined process, a difference occurs in the total changes indicated in this volume compared to the changes indicated in the individual agency and program budgets discussed in the "Agency Budgets and Analysis" section in volumes 1 and 2.

Because present law adjustments are added to the base year to determine a present law budget, budget growth (as prescribed by the amount of the adjustments) ignores the intermediate year(s). In this case, fiscal 1997 appropriations are ignored for fiscal 1998 and 1999 budgets. Effectively, this methodology facilitates budget development from a

vantage point of recent, actual experience, but overstates true budget growth because all increases are measured from the base year.

Conversely, using the base year plus using fiscal 1997 appropriations for budget comparisons more accurately reflects true budget growth. This is because the increases/decreases are measured from a biennium perspective which takes into account the annual increase from the base year to the fiscal 1997 appropriated amount.

Therefore, while the increases over the base year are a necessary way to make budget decisions, they should not be used as measures of budget growth or for comparison purposes. When making comparisons, the total 1999 biennium recommended budgets should be examined in comparison to the total 1997 biennium, as is presented in this volume.

PRESENT LAW ADJUSTMENTS/NEW PROPOSALS

The following discusses the major present law adjustments and new proposals included in the Executive Budget. Please note that all present law adjustments are measured from the 1997 biennium totals, rather than from the fiscal 1996 base. Consequently, the figures discussed below may be different from those discussed in the agency narratives in the "Agency Budgets and Analysis" section.

Table 10

**Present Law Adjustments - New Proposals
1999 Biennium Proposed Executive Budget
in Millions**

Adjustment	General Fund	Total Funds
Present Law Adjustments	\$39.7	\$147.1
New Proposals	<u>79.2</u>	<u>184.5</u>
Total	<u>\$118.9</u>	<u>\$331.6</u>

Present Law

Present law is defined as "that additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to legally mandated workload, caseload, or enrollment changes; changes in funding requirements; inflationary or deflationary adjustments; and elimination of one-time appropriations." Any increase in present law should, therefore, be justified based upon one or more of the stated criteria.

The Executive Budget includes an additional \$147.1 million in present law adjustments. One of the major components of present law increases are to fully fund personal services as if all positions were filled for the entire year, and to annualize the 1997 biennium pay plan. The executive then applies a 3 percent vacancy savings rate to the resulting personal services amount. In addition, an overall deflation rate is applied totaling a negative \$1.2 million over the biennium. Fixed costs charged by certain programs for the provision of services to other programs are also included in present law. The following are some of the highlights of other present law increases. Please note that some of the global adjustments mentioned above will also be included in the following totals.

- the Department of Corrections increases \$26.1 million for a number of purposes, including additional medical costs, pre-release expansion, juvenile out-of-home care, and contracted bed space at regional jails;
- the Montana University System increases \$22.8 million, primarily for enrollment adjustments and faculty salary increases; and
- the Department of Public Health and Human Services increases \$69.2 million, primarily for increased benefits and annualization of increases made by the 1997 legislature.

General fund present law increases total \$39.7 million and are dominated by the Department of Corrections increases, which are totally funded with general fund.

New Proposals

New proposals are defined as requests to provide new non-mandated services, change program services, eliminate existing services, or change sources of funding. The executive includes \$184.5 million in new proposals, of which \$79.2 million is general fund. The major new proposals are:

- \$27.3 million in the Department of Corrections, of which \$26.9 million is general fund. These funds are added for a variety of purposes, including in-state and out-of-state contracting for additional prison beds, increased secure facilities security, agency automation, and additional probation and parole staff;
- \$55.9 million, of which \$18.6 million is general fund, in the Department of Public Health and Human Services. These increases are primarily for provider rate increases and various program expansions;
- \$26.4 million in the Office of Public Instruction, of which \$16.5 million is general fund, for an increase in the BASE aid schedules, increased school facility and technology payments, and other adjustments;

PRESENT LAW ADJUSTMENTS/NEW PROPOSALS

- \$16.5 million, of which \$4.8 million is general fund, in the Montana University System for, among other things, an additional faculty salary adjustment and a distance learning initiative;
- \$19.0 million in the Department of Transportation, including maintenance projects and personnel, and federal grants for airport improvements;
- \$7.1 million in the Department of Commerce for various additions, including federal housing funds, certified community grants, and matching funds for a manufacturing extension project; and \$5.6 million in the Department of Fish, Wildlife, and Parks for various projects, including the automated licensing system.

EXECUTIVE REVENUE/TAX POLICY PROPOSALS

The executive has proposed four initiatives that will impact state revenues:

- mitigate the impacts of property reappraisal;
- utilize coal severance tax revenues to fund infrastructure, research & development, and preservation projects in the state;
- use additional coal tax trust principal to fund the environmental damage suit the state is conducting against the Atlantic Richfield Company;
- utilize \$20.0 million from the State Compensation Insurance Fund to bolster the 1999 biennium general fund balance.

Each of these initiatives is discussed in detail below.

Property Reappraisal

Executive Proposal

The executive proposal recommends \$85.6 million in tax relief to property taxpayers in order to offset the impact of the January 1, 1997, reappraisal of residential and commercial property. The proposed tax relief includes

\$71.0 million in reduced state property taxes and \$14.6 million in increased GTB aid to schools.

1997 Property Reappraisal Status

On January 1, 1997, reappraisal of existing property and appraisal of property that has been added to the tax base since January 1, 1996, will result in an estimated increase in the statewide tax base of \$402.7 million, or 21.6 percent. Although the amounts are not final, the Department of Revenue (DOR) has estimated that the taxable value of commercial and residential property will increase by \$384.4 million, agricultural land by \$9.0 million, and timberland by \$9.3 million. The total increase in value for all property in the state on January 1, 1997, will also include adjustments for changes in value to the other classes of property. These values are not known at this time.

Table 11 shows the estimated increase in taxable value due to reappraisal and the state revenue impact of the increase for each of the state levies. All counties but one experienced increased taxable value, with the largest increase occurring in the counties just north of Yellowstone Park and in the Western part of the state. The changes in taxable value range from -2.0 percent in McCone County to 75.0 percent in Madison County.

EXECUTIVE REVENUE/TAX POLICY PROPOSALS

Table 11
Property Reappraisal in Tax Year 1997
Estimated Change in Taxable Value
and Impact on State Revenue During the 1999 Biennium*

Property Class	In Millions			
	Change in Taxable Value All Counties	Percent Chge** TY96 to TY97	Change in Taxable Value Welfare Counties	Change in Taxable Value Vo-Tech Counties
Class 4 (Residential & Commercial)	\$384.458	43.5 %	\$220.400	\$162.331
Agricultural Land	9.003	6.5 %	0.924	0.720
Timber Land	9.266	126.0 %	6.581	1.700
Total	<u>\$402.727</u>	<u>21.6 %</u>	<u>\$227.905</u>	<u>\$164.751</u>
State Revenue Impact (Biennial)				
	Public School Levies 95 mills	University Levy 6 mills	Welfare Levy 9 mills	Vo-Tech Levy 1.5 mills
Class 4 (Residential & Commercial)	\$73.047	\$4.613	\$3.967	\$0.487
Agricultural Land	1.710	0.108	0.017	0.002
Timber Land	<u>1.761</u>	<u>0.111</u>	<u>0.118</u>	<u>0.005</u>
Biennial Totals	<u>\$76.518</u>	<u>\$4.833</u>	<u>\$4.102</u>	<u>\$0.494</u>
Grand Biennial Total				\$85.947

* Based on estimates provided by the DOR to ROC on December 2, 1996.

** The percent change in taxable value is for each of the 3 classes individually between tax year 1996 and 1997; for the total, percent change is relative to all property in the state in tax year 1996.

State revenues during the 1999 biennium are expected to increase by \$85.9 million as a result of reappraisal. This includes revenue increases for the equalization levy, the university levy, the welfare levy (12 counties) and the Vo-Tech levy (5 counties). In addition, the state will realize GTB aid savings for K-12 education of approximately \$16.7 million during the 1999 biennium. Of this amount, \$12.5 million will be one-time state GTB aid savings in fiscal 1998, and \$4.2 will be on-going GTB aid savings in fiscal 1999 and beyond. The state GTB savings will result in an increase of \$15.7 million in local school district general fund requirements and an increase of \$1.0 million in county retirement fund requirements.

The total impact due to reappraisal during the 1999 biennium for state-operated functions will be \$102.6 million (\$85.9 + \$16.7) if current law is not changed. Increases in revenue to other taxing jurisdictions are much less certain. For schools, there are levies associated with transportation, debt service, teacher retirement, and other smaller accounts. None of the potential increases in spending from these funds is controlled directly by voters, except in a long-term sense in that voters choose school board trustees. School district general fund growth is controlled each year by voters since any inter-year spending increases must be approved by voters and are limited to 4.0 percent per year or 4.0 percent per ANB per year.

EXECUTIVE REVENUE/TAX POLICY PROPOSALS

For counties and cities, the increase in taxable value could result in “windfall” revenue. Initiative I-105, which limits county and city mill levy and/or revenue increases, contains an exception for increases in taxable value caused by cyclical reappraisal. Likewise, miscellaneous districts are exempted from the limits imposed by I-105.

Even if all local taxing jurisdictions raise no extra revenue as a result of reappraisal, there will be tax liability shifts among classes of property. A county which lowers mills in a revenue-neutral way in response to reappraisal will shift the burden of the tax away from non-class 4 property to class 4 property. The extent of the shift will depend on the amount of increase in class 4 property and on the share of class 4 property in the tax base.

Reappraisal Tax Relief

Although the executive has expressed an intent to provide property reappraisal tax relief, the Executive Budget does not recommend a specific method for providing the relief. Several issues relevant to reappraisal are as follows:

- 1) will state revenue increases, due to new property added to the tax base, be allowed to stand?
- 2) what method of tax relief will be proposed, and how will the method chosen impact tax liability for class 4 versus non-class 4 property;
- 3) how will the method chosen impact local and state government revenues; and
- 4) how will the method of tax relief impact state GTB aid and local property tax efforts?

New versus Existing Property - Reappraisal revalues existing property and also adjusts the tax base for new property. The Department of Revenue has not provided estimates of the extent to which the increase of \$384.4 million in class 4 property is due to reappraisal versus the addition of new property. In general, additions to class 4 property in non-appraisal years have increased the class 4 tax base by approximately 3.5 percent per year. The Revenue Oversight Committee (ROC), in their December 2, 1996 meeting,

recommended class 4 property for fiscal 1999 be based on an assumed growth rate of 3.5 percent. At that meeting, DOR stated that it would provide estimates of the new residential and commercial property sometime after the first of the year.

Methods of Tax Relief - The executive has not specified how tax relief is to be achieved. However, two methods have been publicly discussed:

1) reduce the statewide mill levies. Statewide mill levies could be reduced to levels that would produce the same revenue as would be collected in the absence of reappraisal. DOR has estimated that the state 101 (95+6) mill levy would need to be reduced to 88 mills. The result of such a reduction would be that class 4 property statewide (while not carrying as large a burden if reappraisal were not mitigated) would still face an increase in tax liability since the class 4 share of the tax base increases with reappraisal. Non-class 4 property would experience a decline in its state property tax burden. DOR has estimated that reducing statewide mill levies would result in an average increase in class 4 state tax liability of 19.0 percent, while non-class 4 property would experience a decrease of 14.0 percent in state tax liability. The majority of the increase in state tax liability would occur in the Western counties of the state, while the majority of the decline in state tax liability would occur in the Eastern counties of the state. Counties in the eastern part of the state would pay approximately \$9.4 million less in state property taxes and the western part of the state would pay \$9.4 million more when compared with taxes due in fiscal 1997.

2) reduce the tax rate applied to commercial, and residential property. The statewide tax rates applied to class 4 property could be reduced to a level that would bring in the same revenue to state government as would be collected in the absence of reappraisal. On average, the change in the tax burden borne by each class of property would be the same as it was before reappraisal. However, within taxing jurisdictions, there will be winners and

EXECUTIVE REVENUE/TAX POLICY PROPOSALS

losers. In counties where the average percent increase in class 4 value exceeds the state average, class 4 taxpayers will experience increases in tax burden, and other classes will experience decreases. In addition some taxing jurisdictions, mainly in the eastern part of the state, will experience declines in their property tax base, possibly requiring increases in local mill levies and thus increasing taxes on non-class 4 taxpayers.

Impact on GTB - Reappraisal will reduce state GTB aid costs and increase local property taxes in GTB-dependent school districts. In fiscal 1998 the effect is a one-time occurrence due to lags in the GTB aid formula. In fiscal 1999 and beyond, reappraisal causes a reduction in the wealth disparity between school districts in the state. The existence of the GTB savings during the 1999 biennium will depend on the method by which the legislature provides relief for property tax increases associated with reappraisal. If statewide mill levies are reduced, the GTB savings will be realized, and local taxpayers will pay the difference. If the tax rates applied to commercial and residential property are reduced, the state GTB savings will disappear, as will the increased tax burden by taxpayers in GTB-dependent districts. However, in the event of a tax rate reduction, even though changes in statewide GTB aid will, on average, be zero, some districts will experience increases in GTB aid and others will experience decreases. See the section on Public School Funding for more details.

In addition to the two methods to mitigate the impacts of reappraisal discussed above, there are other options. In May 1996, a tax policy task force, created by SB 417 in the 1995 legislative session, published recommendations for changes to Montana's property tax system. The task force was comprised of eight legislators and eight members of the public chosen by the Governor. The product of the task force was recommendations for: 1) principles of taxation; 2) a two-year tax policy strategy; and 3) longer term tax reform. The major recommendation contained within the two-year policy strategy was to limit future property tax revenue for each taxing jurisdiction to tax year 1996 levels. Each taxing jurisdiction would be allowed increased property tax revenue from new property or from improvements to existing property, in the event of a decline

in nonlevy sources of revenue, or when voters approved increases in mill levies.

Other methods of mitigating property tax increases due to reappraisal include: 1) an income tax credit; 2) increasing state GTB subsidies; 3) homestead exemptions; 4) delaying the impact of reappraisal; or 5) eliminating all state levies and replacing revenue with an alternative source of revenue. None of these options have been recommended by the executive.

The Albright Suit

The plight of reappraisal for tax year 1997 is uncertain due to a suit that challenges the reappraisal methods used in the tax year 1993 reappraisal. On December 5, 1996, the Eighth Judicial District Court, in *Raymond and M.A. Albright, et al v. The Department of Revenue of the State of Montana, et al*, found for the plaintiffs in their claim that the 1993 reappraisal failed to equalize residential and commercial property values. The court found that DOR utilized two different methods to appraise residential and commercial property. According to the district court, the use of multiple methods of appraising property violates the constitutional and statutory requirements that all property be appraised using a uniform method that accurately reflects the market value of property. The department utilized the comparable sales method for the majority of residential property in the state, but utilized the cost method (adjusted by depreciation) when comparable sales were unavailable. Likewise, for commercial property, the income method was utilized when data were available, and the cost method was utilized when data were not available.

The court found that in cases where equalization of appraisal methods conflicts with the requirement of discovering true market value, the equalization requirement has the higher priority. When both uniformity of method and accurate discovery of market value are in conflict, uniformity takes precedence. The court found that the department had available a method, the cost method, which could have been applied uniformly to all residential and commercial property.

The court also found that in 1993 DOR failed to mail, in a

EXECUTIVE REVENUE/TAX POLICY PROPOSALS

timely manner, classification and appraisal notices to all property owners in Gallatin, Park, Beaverhead, and Madison Counties. Montana statute (15-8-201, MCA) requires that DOR send out tax classification and appraisal notices before the second Monday in July.

The *Albright* decision will be appealed to the Montana Supreme Court. The Supreme Court has agreed to hear testimony on the case in February 1997.

Coal Severance Tax Revenue Proposals

Infrastructure, Research and Development, and Preservation Projects

The executive has proposed utilizing coal severance tax revenue to fund infrastructure, research and development (R&D), and historical and land preservation projects throughout the state. The infrastructure proposal would: 1) provide annually \$9.0 million in coal severance tax revenues and \$3.8 million in treasure state endowment fund interest earnings; and 2) attempt to attract federal and private matching funds to help communities build water, sewer, and solid waste facilities. The executive expects to attract \$64.0 million in federal and private funds to help fund these projects.

The infrastructure proposal would also provide \$5.5 million in biennial coal severance tax revenues to fund school facility reimbursements. This program provides school districts with matching money to pay debt service on building construction, with the amount of the match dependent upon the wealth of the district. Currently, spending for this program is paid out of the state general fund. The final infrastructure program would use annually \$1.0 million in coal severance tax revenues for school district computer acquisition and training. School districts are also expected to receive \$4.3 million during the 1999 biennium from excess timber sales on common school trust lands for computer technology acquisitions.

The research and development proposals would utilize \$4.0 million in annual coal severance tax revenue to fund projects for the University System. The executive expects federal and private matching money to total \$28.0 million annually.

The preservation proposals would use: 1) \$1.0 million to fund a new Montana Historical Society program to purchase historically significant property; and 2) \$2.0 million in annual coal severance tax revenues to fund a new program in the Governor's Office to purchase undeveloped tracts of land. The executive expects to attract \$15.0 million in matching federal and private funds to help fund these programs.

The Executive Budget does not contain estimates of the revenue impact of the coal severance tax proposals. Coal severance tax is deposited on a quarterly basis into the permanent trust and the treasure state endowment trust. Together, the two trusts are expected to receive \$38.5 million in coal severance tax revenues during the 1999 biennium. Utilizing this money would result in a revenue loss to the general fund and to the treasure state interest fund of \$3.5 million during the 1999 biennium. As the program continues into the future, the loss in interest earnings will increase significantly. The cumulative loss in interest over 20 years, assuming the incoming flow could have earned 7.0 percent per year, amounts to \$280.0 million in foregone interest, and \$400.0 million in foregone principal.

However, to the extent the executive proposal increases jobs and/or improves Montana's economic performance, these fiscal impacts may be reduced.

The executive proposes funding the infrastructure, R&D, and preservation projects during the 1999 biennium out of coal severance tax revenues. Article IX, Section 5 of the Montana Constitution states "at least fifty percent of the severance tax shall be dedicated to the trust fund." This sentence in the constitution is not conditioned by any legislative voting requirements. In order for the severance tax to be diverted before it reaches the trust fund, the constitution itself must be changed.

Once the severance tax reaches the trust fund, it may be diverted by a three-quarters vote of each house of the legislature. However, the point within the trust fund at which the diversion takes place must also be chosen with care. Coal severance tax revenue is deposited into a bond fund, a portion of which is used to pay obligations on bonds whose proceeds are used to fund state water development

EXECUTIVE REVENUE/TAX POLICY PROPOSALS

projects. The remaining revenue is deposited in the school contingency bond fund where the funds may be used to pay debt service on bonds issued by schools for building projects. Bond resolutions require that 50 percent of severance tax revenues be deposited into these intra-trust accounts. Therefore, any diversion of coal tax trust principal must be achieved at a point after the revenue has flowed through these accounts.

Assuming that the legislation proposed by the executive requires that trust principal, instead of severance tax revenue, will provide the funding for projects, the bill will require a three-quarters vote of each house to be approved.

The ARCO Case

The executive requests \$730,000 in additional coal tax trust funds in fiscal 1997 to supplement spending authority for expenses associated with the Montana v. ARCO suit, which is being conducted by the Natural Resource Damage (NRD) Program. The NRD program is attached to the Department of Justice pursuant to executive order of the Governor. The program was created in 1991 for the purpose of litigating the State's claim for natural resource damages against ARCO under the federal SuperFund law (CERCLA) and its state law counterpart (CECRA). The State has completed a detailed and comprehensive assessment of the natural resource injuries to the Clark Fork River basin between Butte and the Milltown Dam. The state has presented a claim against ARCO in an amount in excess of \$700 million for restoration costs, assessment costs, and compensable damages suffered as a result of releases of hazardous substances, principally mining wastes, for which ARCO is legally responsible. The case is currently scheduled to begin trial in federal district court in Great Falls in early 1997. HB 305, passed by the 1995 legislature, appropriated \$2.4 million for conducting trial preparation. These expenses were underestimated during the last legislative session. Using \$730,000 of coal tax trust principal will result in an \$11,000 interest loss to the general fund in fiscal 1997.

In addition to the request for the 1997 biennium, the executive is seeking an additional \$1,492,000 for conducting the suit during the 1999 biennium. The executive has estimated that the interest foregone as a result of this

expenditure from the coal tax trust fund will be \$90,000 during the 1999 biennium.

The state will have expended \$9.9 million at the end of fiscal 1997 as a result of the ARCO suit.

Transfer of \$20 Million from State Fund

In July of 1989, the legislature appropriated \$20 million from the general fund to the workers' compensation tax account for fiscal 1990. This money was used to reduce the unfunded liability in the State Compensation Mutual Insurance Fund. On November 13, 1996, the Director of the Office of Budget and Program Planning requested the State Fund Board of Directors consider supporting legislation to return the \$20 million to the general fund.

The State Fund Board of Directors addressed this request at their November and December, 1996, meeting and passed a resolution indicating their ability to make the \$20 million payment would be dependent on a number of contingencies, including:

- 1) merger of the New Fund and the Old Fund;
- 2) increased budgetary independence;
- 3) transfer of title to the State Fund office building, grounds, and parking garage to the Board;
- 4) a four-year period for payment of the funds;
- 5) receipt of payroll tax proceeds through December 31, 1998; and
- 6) surplus adequacy.

The various components of the resolution will be included in a single piece of legislation affecting a variety of aspects related to State Fund operations. This legislation will be introduced at the request of the Governor.

A more detailed discussion of the proposal for transfer of \$20 million to the general fund, including the contingencies, is provided in the budget narrative for the State Compensation Insurance Fund. See Volume 2, Section G, page G-139.

If the legislature adopts the \$20 million transfer recommendation of the executive, the general fund revenue

EXECUTIVE REVENUE/TAX POLICY PROPOSALS

flow will be increased by \$10 million per year but will not be an ongoing revenue source.

EXPENDITURE PROPOSALS

The following narrative discusses the Executive Budget from three perspectives: 1) fund type; 2) function/agency; and 3) expenditure type. The discussion and comparisons include funding as contained in the general appropriations act (HB 2) only, and do not include initiatives such as the pay plan, which are discussed in separate sections of this volume.

The Governor's proposed HB 2 expenditures, including general fund, FTE, and operating costs are dominated by the Department of Corrections (DOC). DOC accounts for 45.2 percent of the increase in general fund, 49.3 percent in FTE, 29.5 percent in personal services, 20.7 percent in operating expenses, and 59.9 percent in equipment. If operating expense additions as the result of the Montana Mental Health Access Plan in the Department of Public Health and Human Services (PHHS) are not included, DOC accounts for 60.8 percent of total operating expense increases. This increase actually reflects a shift from benefits to operating costs to fund mental health services, and is essentially a classification, rather than total funding, issue. The following table compares the increases in the Executive Budget both with and without the inclusion of the Department of Corrections. Please note that the increases are in HB 2 only, and do not include any of the Governor's bonding proposals of \$25.8 million for additional prison projects.

Table 12
Increases in Executive Budget
1997 to 1999 Biennium
in Millions

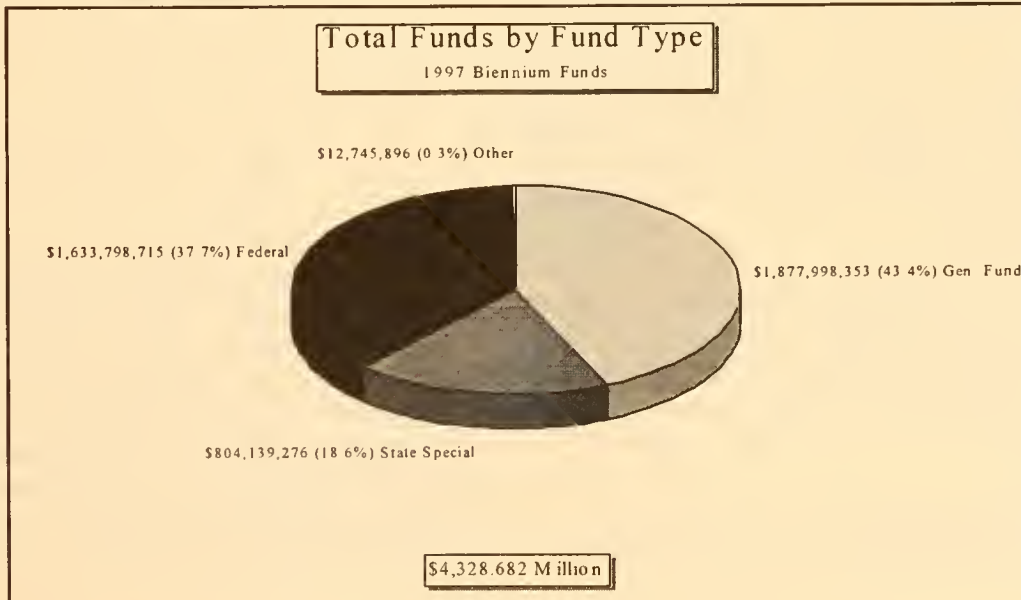
Category	With DOC	Percent Increase	Without DOC	Percent Increase
FTE				
Personal Services	\$34.9	5.1%	\$24.6	3.6%
Operating Expenses	166.6	19.3%	132.2	15.3%
Equipment	4.7	19.6%	1.9	7.9%
General Fund				
Total Funds	118.9	6.3%	65.2	3.5%
	\$331.6	7.7%	\$278.2	6.4%

For a detailed discussion of the proposals for DOC, please see the agency budget narrative in the "Agency Budgets and Analysis" section, Volume II.

Expenditures by Fund Type

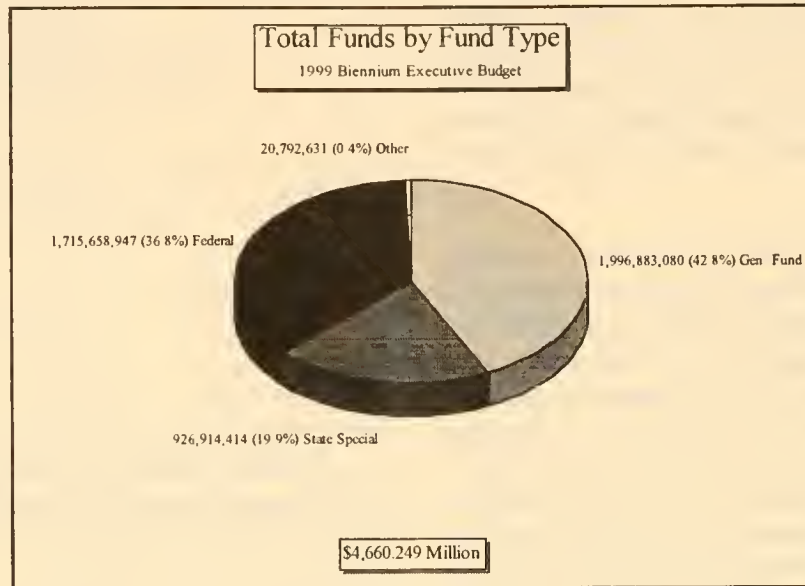
Graphs 1 and 2 compare HB 2 funding in the 1997 biennium to the executive's proposed 1999 biennium budget. The following sections discuss each fund type.

Graph 1



EXPENDITURE PROPOSALS

Graph 2



General Fund

General fund totals \$1,996.9 million in the 1999 biennium HB 2 Executive Budget, an increase of \$118.9 million from the 1997 biennium level. The following highlights some of the major increases.

- an increase of \$53.7 million in the Department of Corrections for a number of purposes, including over \$23.5 million for secure facilities;
- enrollment increases and an increase in the BASE aid schedules in the Office of Public Instruction totaling \$15.1 million, and additional funds for the Montana University System of \$4.6 million for executive projected enrollment growth and various other initiatives;
- increases totaling \$20.4 million for a variety of purposes in the Department of Public Health and Human Services, primarily medicaid caseload increases, provider rate increases, and program expansions;
- \$25.1 million in general government, the major additions of which are:

1) \$4.0 million over the biennium for personal services contingency funds for agencies that cannot meet the executive's proposed 3 percent vacancy savings plan;

2) \$5.0 million in the Department of Justice for various adjustments, including a funding switch in the Motor Vehicle Division from highways special revenue to the general fund and other general increases;

3) \$5.5 million in the Department of Revenue for general increases, including increased computer processing costs.

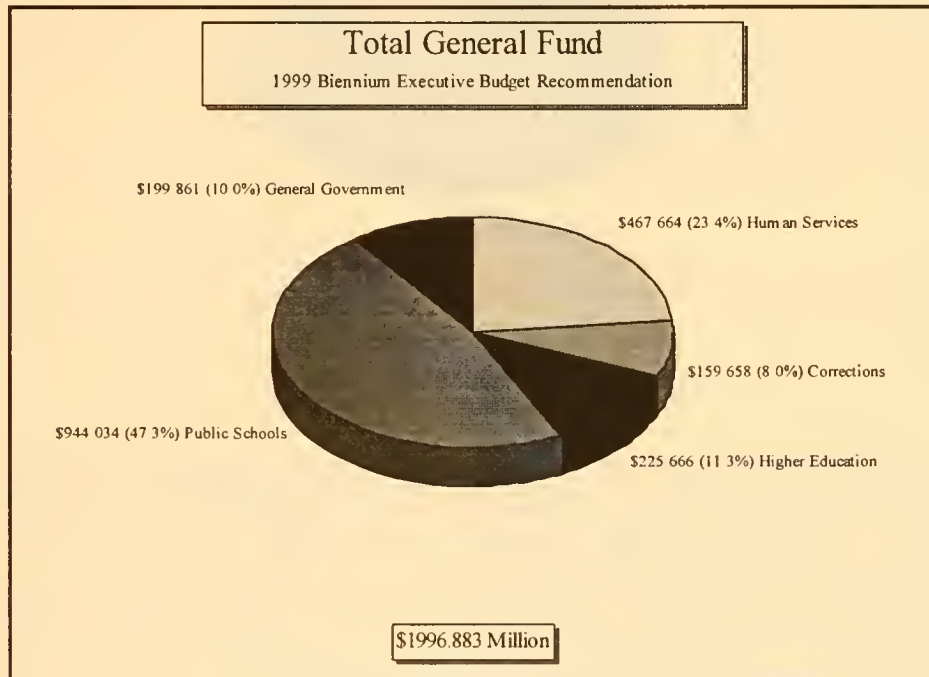
Graph 3 shows general fund allocations by state government function for the 1999 biennium as proposed in the Executive Budget. As shown, education (both K-12 and higher education) accounts for 58.6 percent of total general fund expenditures in the Governor's proposed 1999 biennium budget, with corrections totaling 8.0 percent and human services 23.4 percent. General government rounds out the total with 10.0 percent. The increases from the 1997 biennium are shown in Graph 4. The graph shows an increase in total general fund of \$118.9 million. A shift in

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emphasis of total state government general fund expenditures has occurred. Despite increases to education and human services mentioned above, the share of the general fund budget devoted to corrections shows an increase at the expense of those two functions. The reasons for the shift are graphically illustrated in Graph 4, which

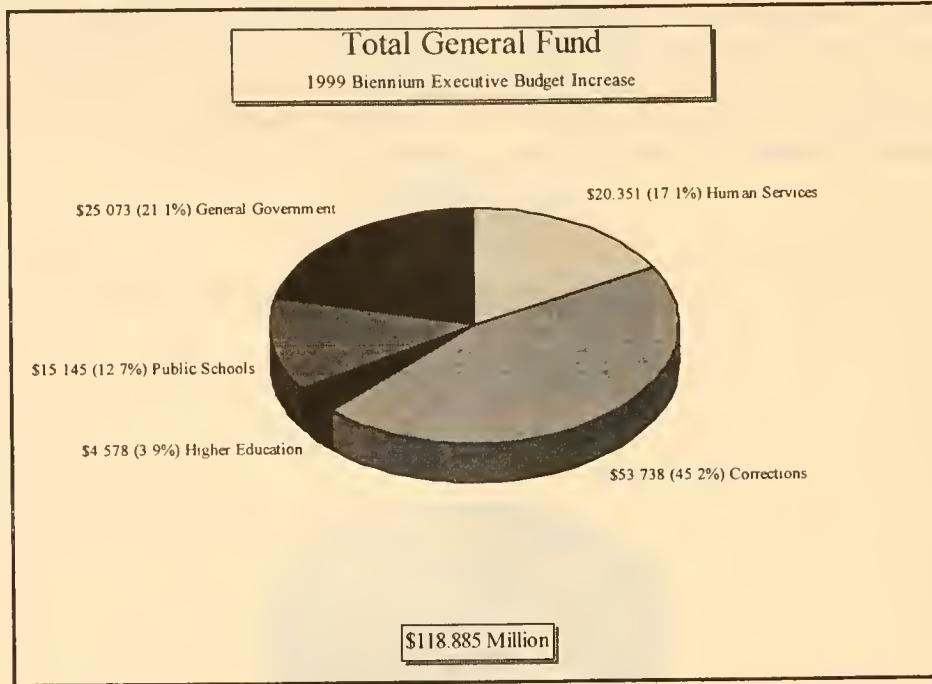
shows how the increase of \$118.9 million is allocated by function. As shown in the graph, corrections consumes 45.2 percent of the total increase, while human services and education consume 17.1 percent and 16.6 percent, respectively. General government is allocated the remaining increase of 21.1 percent.

Graph 3



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Graph 4



While the share education represents of total general fund has been declining in recent biennia, this decline has generally been due to the increases in human services, primarily because of increasing medicaid costs. In the 1999 biennium Executive Budget, human services costs increase \$20.4 million, or 4.6 percent. While the total increase is significant in a total dollar perspective, the rate of growth is well below previous growth rates. The primary reason for this lower overall growth rate is reduced growth rates in medicaid. (It should be noted that the overall increase from the 1997 biennium is lower than the increase from fiscal 1996, as expenditures are below those projected by the 1995 legislature.)

These changes are discussed in greater detail in the individual agency narratives in the "Agency Budgets and Analysis" Volumes I and II, and in the discussion of K-12 education in this volume.

State Special Revenue

State special revenues increase \$122.8 million, or 15.3 percent. The primary increases are:

- highways special revenue in the Department of Transportation of \$32.9 million, primarily for construction and maintenance;
- an additional \$36.3 million in the Montana University System, primarily due to tuition increases;
- \$20.4 million in the Department of Public Health and Human Services, primarily due to the implementation of the mental health managed care contract;
- \$7.9 million of primarily general license account revenue in the Department of Fish, Wildlife and Parks, and \$5.9 million in the Department of Natural Resources and Conservation from various sources; and
- \$6.5 million in the Office of Public Instruction, of which \$5.5 million is coal tax funds for school facility reimbursement.

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Federal Funds

Federal funds increase \$81.9 million, or 5.0 percent. Major changes are:

- \$12.2 million in the Office of Public Instruction, primarily in increased grants to schools;
- \$6.2 million in the Department of Fish, Wildlife and Parks from various sources for various purposes, including \$1.8 million for new proposals and \$3.8 million in legislative contract authority;
- \$10.7 million in the Department of Commerce, primarily in increased grants.
- an increase in the Department of Public Health and Human Services of \$84.7 million, a significant portion of which is for increased benefit payments.

These increases are partially offset by a reduction in federal funds in the Department of Transportation of \$37.4 million due primarily to lower anticipated contractor payments.

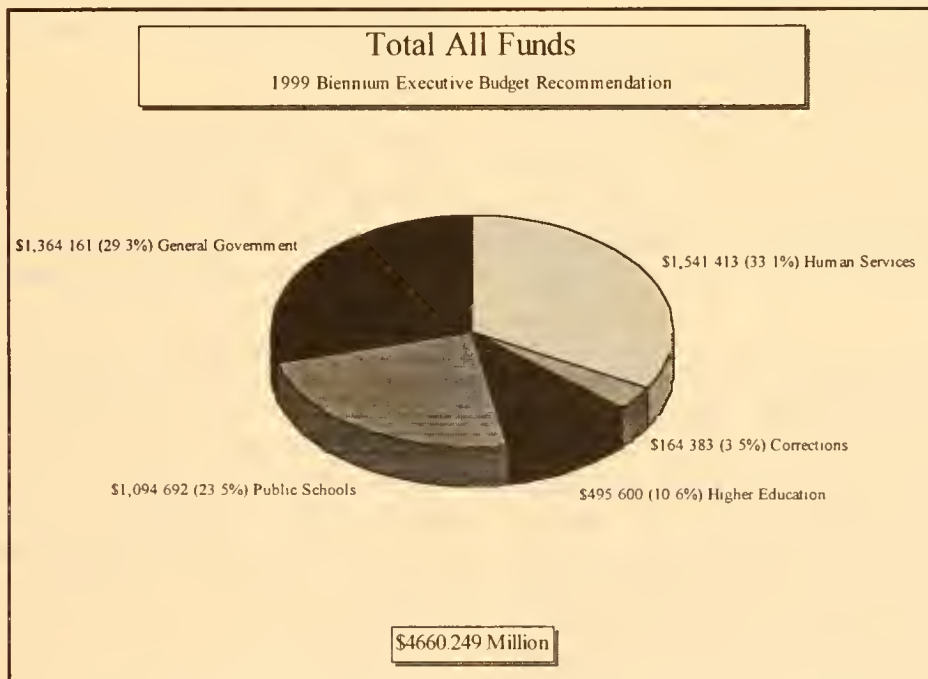
Other Funds

Other funds are comprised of appropriated proprietary funds, capital project funds, and expendable and nonexpendable trust funds. Other funds total \$20.8 million in the 1999 biennium proposed budget. These funds increase 63.1 percent because the executive has included contingency funds of \$9.0 million in the expendable trust category, even though almost all of these costs will be paid from state special and federal funds.

Total Funds

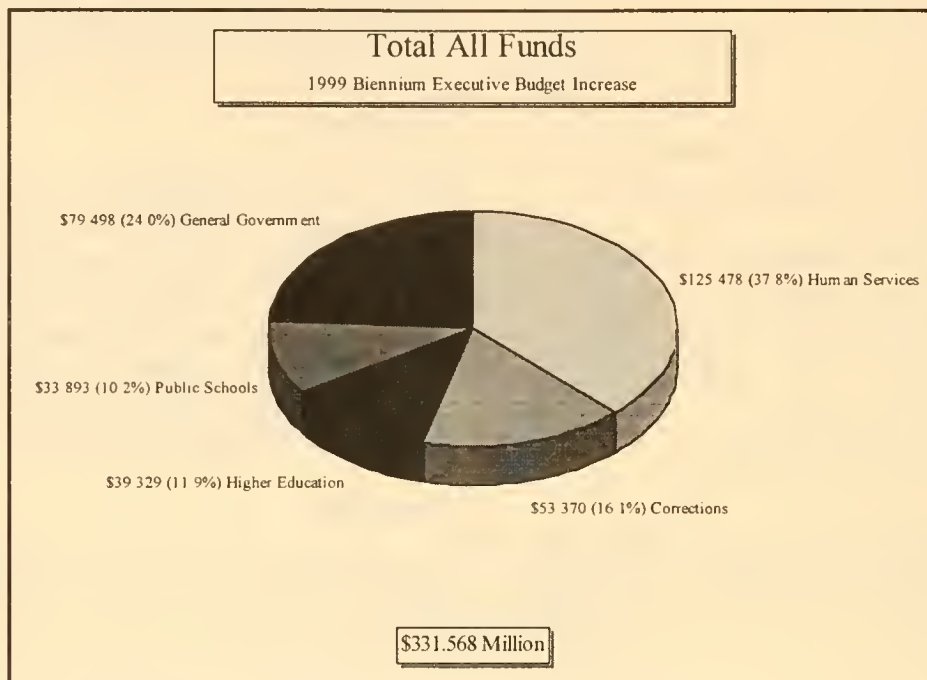
Graph 5 shows the allocation of total funds, while Graph 6 shows the increase.

Graph 5



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Graph 6



Expenditures by Function/Agency

The following narrative discusses major increases (general fund and total funds) included in the Executive Budget for corrections, human services, and the Montana University System. An explanation of changes in the Department of Transportation budget is also included. A discussion of K-12 education is included in a separate section of this volume.

Corrections

The executive increases the Department of Corrections 1999 biennial budget by \$53.4 million over the 1997 biennium, all of which is general fund. This is an increase of 48 percent over the 1997 biennium. The increase is composed of new proposals totaling \$27.3 million and present law adjustments of \$26.1 million and is primarily attributable to the growing inmate population. Of the increase, over \$35 million, or 65 percent, is associated with the housing and maintenance of the adult inmates at the Montana State Prison (MSP), the Womens Correctional Center (WCC), private out-of-state facilities, and the regional correctional facilities in Montana. The adult inmate budget increase includes: 1) inmate

medical costs of \$6.8 million; 2) costs of maintaining inmates of \$23.5 million; and 3) costs of improving facility security of \$3 million.

Increases associated with juvenile corrections total \$9.7 million over the 1999 biennium and are primarily due to: 1) \$5 million for out-of-home care; 2) \$2.8 million for the Montana Youth Alternatives program; and 3) \$1.7 million for Pine Hills School and Youth Transition Centers.

In addition to the program costs included in HB 2, the executive is proposing \$40.2 million in long range building proposals to: 1) construct an additional 192 beds at the Montana State Prison, \$13 million; 2) construct three regional correctional facilities, \$11.4 million; 3) expand and purchase land for the Women's Correctional Center in Billings, \$2.3 million; 4) construct new facilities at Pine Hills School, \$11.2 million; and 5) add a new food service facility at MSP.

Human Services

The Executive Budget includes a \$125.5 million increase for the Department of Public Health and Human Services from

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the 1997 biennium to the 1999 biennium. The major contributors to this increase are:

- \$55.9 million in new proposals, including:
 - \$21.7 million for 1.5 percent provider rate increases;
 - \$2.3 million for new programs; and
 - \$31.5 million for program expansions such as: child care, family preservation services, public health programs, community living and work slots, senior services, and home and community based medical services;
- \$145.5 million in present law adjustments from the fiscal 1996 base, including:
 - \$88 million for anticipated caseload and cost increases in several benefits programs including foster care, Medicaid, nursing homes, disability services, and a *reduction* in welfare caseloads;
 - \$38.4 million increase to enable the payment of the managed care contract for the implementation of the Mental Health Access Plan;
 - \$25.5 million for statewide and other present law adjustments; and
- a lower funding level in the 1999 biennium than would be indicated by the fiscal 1997 appropriation. Fiscal 1997 appropriations show a large increase from fiscal 1996 expenditures (\$75.9 million) that is not indicative of the trend between fiscal 1996 and the 1999 biennium.

These increases are offset by:

- an \$8.3 million reduction in operating and computer-related costs.

General fund increases \$20 million due primarily to the new proposals contained in the executive budget. This increase represents the state share of the proposed provider rate increases, new programs, and program expansions contained in the executive budget. Other contributing factors include

annualization of the pay plan and a request in the present law base executive budget for \$1 million general fund for pay plan funding for institutional staff at Montana State Hospital and the Montana Mental Health Nursing Care Center.

Transportation

The executive request for MDT amounts to \$688 million in the 1999 biennium, which is a slight reduction (0.65 percent) from the 1997 biennium authorized level of \$692 million. Expenditure decreases are primarily driven by a 12 percent reduction in contractor payments within the construction program. As such, federal funds requested by the department decrease by 9.5 percent compared to the previous biennium.

The executive proposes the state-funded construction program (Reconstruction Trust Fund program [RTF]) at a net level of \$65.5 million. The expanded RTF program reflects an 18 percent increase over 1997 biennium budgeted levels.

The executive proposal requests spending authority for budgeted expenditures that exceed projected revenues to the highways special revenue account by more than \$30 million in the 1999 biennium.

Higher Education

The executive proposal for the Montana University System includes \$225.7 million general fund and \$495.6 million total funds for the biennium. The Executive Budget for the 1999 biennium is funded with 45.5 percent general fund and 41.2 percent tuition, compared to 49.3 percent and 36.8 percent respectively in the base year.

The Executive Budget present law adjustments are generally the result of: 1) annualization of the pay plan; 2) operation and maintenance for new buildings at the University of Montana-Missoula and Montana State University-Bozeman; and 3) enrollment adjustments in the university units, colleges of technology, and community colleges. Enrollment is anticipated to increase by over 4,400 in the biennium (including community college decreases of 275), when compared to fiscal 1996 budgeted levels. The

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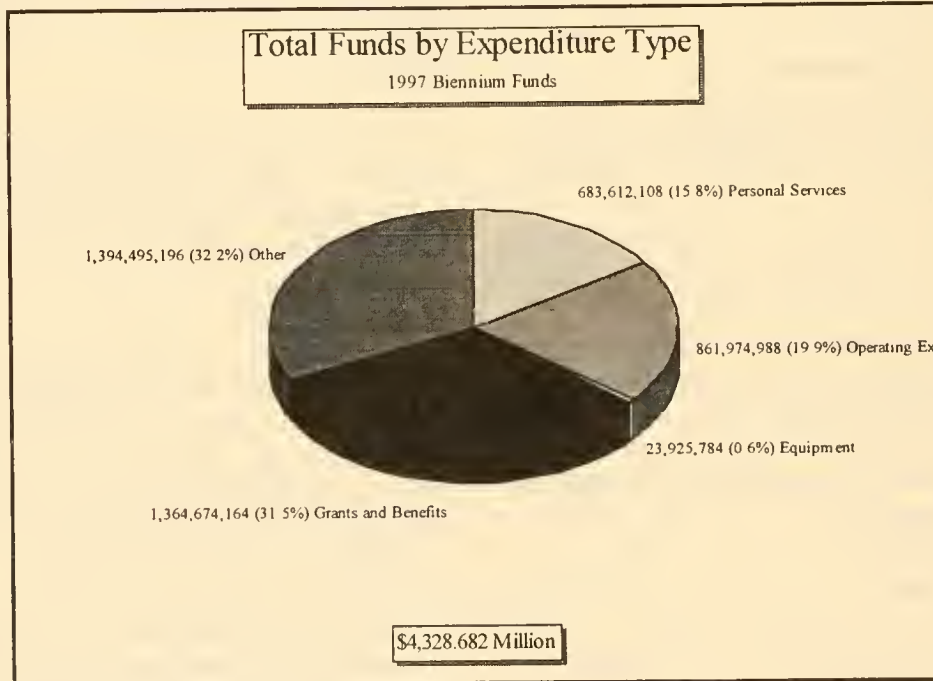
executive increases the budget by \$17.7 million general fund and tuition above the fiscal 1996 base to fund enrollment increases.

General fund is 13.3 percent of the total present law adjustment funding, compared to 45.5 percent of the base funding. This shift is the direct result of increasing reliance on tuition, which is scheduled to increase by 6 percent per student each year. The increasing rate per student, plus the increased number of estimated students, results in total tuition increases of 23 percent in fiscal 1998 and 32 percent in fiscal 1999, or a total of \$43.7 million for the biennium.

Expenditure by Type

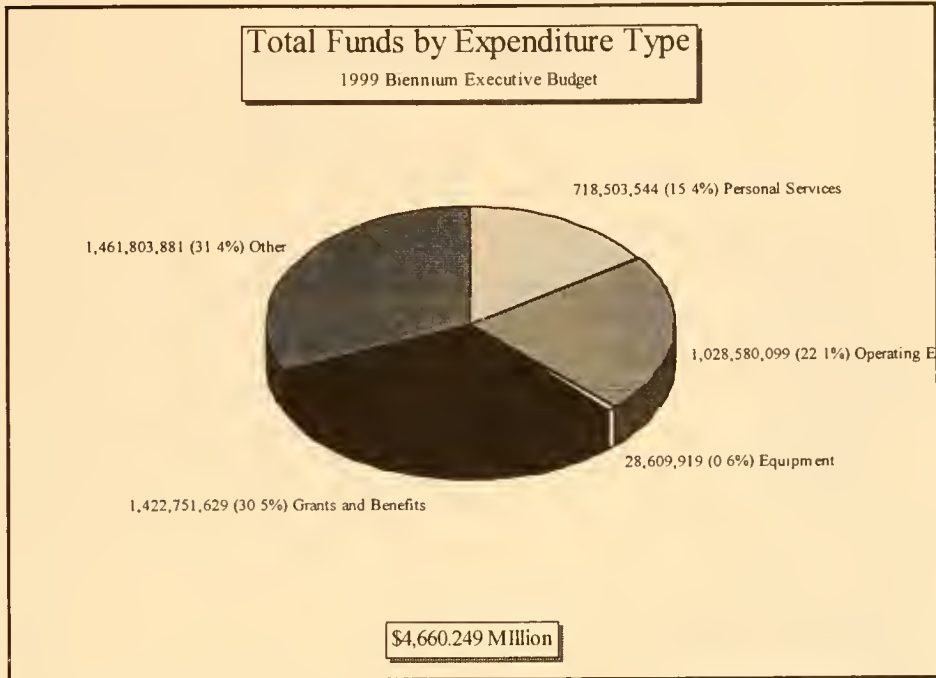
The graphs that follow compare allocations of HB 2 expenditures in the 1997 biennium to the allocations recommended in the 1999 biennium Executive Budget. Operating expenses show an almost 20 percent increase while personal services increase by just over 5.0 percent. This pattern would indicate a shift from personal services to operating expenses as a percent of total expenditures. However, this increase is misleading due to a shift in certain on-going costs in the Department of Public Health and Human Services from grants to operating expenses. If this factor (discussed under "Operating Expenses" below) is discounted, the executive would maintain expenditures by fund type at essentially the 1997 biennium allocations.

Graph 7



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Graph 8



Personal Services

Personal services, including salaries, benefits, per diem, and other additions such as overtime, is the single largest expenditure for most state agencies. Personal services budgets comprise over 43 percent of total budgets (excluding grants and benefits) in the 1999 biennium Executive Budget, and about 15.4 percent of total state expenditures in HB 2. Personal services increase 7.7 percent in fiscal 1998 and 8.9 percent in fiscal 1999 compared to fiscal 1996 expenditures. The increase from the 1997 biennium to the 1999 biennium is 5.1 percent. There are a number of reasons for the increase, including: 1) number of

FTE; 2) pay plan annualization; 3) upgrades/downgrades; and vacancy savings. These are discussed in detail below.

Number of FTE

Table 13 compares the number of FTE appropriated by the legislature in the 1997 biennium to the number requested in the Executive Budget. The table does not include any FTE added via the budget amendment process, language appropriations, or legislative contract authority (LCA). The table also does not include any FTE funded through non-budgeted funds, such as proprietary funds.

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Table 13
FTE Comparison - HB 2
1997 Biennium to 1999 Biennium Executive Budget

Section/Agency	HB2	HB2	Executive	Executive	Increase (Decrease)
	Fiscal 1996	Fiscal 1997	Budget Fiscal 1998	Budget Fiscal 1999	
Section A - General Government					
Legislative Branch	118.27	123.44	120.27	125.44	2.00
Consumer Counsel	5.00	5.00	5.01	5.01	0.01
Judiciary	97.75	97.25	102.75	104.25	7.00
Governor's Office	52.25	52.25	49.69	50.00	(2.25)
Secretary of State***	1.00	1.00	0.00	0.00	(1.00)
Commissioner of Political Pract	7.25	7.25	6.25	6.25	(1.00)
State Auditor	62.00	62.00	62.00	62.00	0.00
Transportation	1,778.81	1,779.81	1,834.17	1,821.61	41.80
Revenue	640.89	641.39	643.64	644.89	3.50
Administration	93.46	93.46	84.46	84.46	(9.00)
Appellate Defender	2.00	2.00	2.75	3.00	1.00
PERS	19.50	19.50	19.50	19.50	0.00
Teachers Retirement System	11.00	11.00	11.75	12.00	1.00
Total Section A	2,889.18	2,895.35	2,942.24	2,938.41	43.06
Section B - Human Services					
Public Health and Human Services	2,757.41	2,715.71	2,778.57	2,796.90	81.19
Section C - Natural Resources and Commerce					
Fish, Wildlife, and Parks	542.43	547.43	554.91	557.35	9.92
Environmental Quality	366.55	366.55	327.18	330.23	(36.32)
Livestock	126.71	126.71	130.46	130.71	4.00
Natural Resources/Conservation	484.13	478.05	492.12	493.12	15.07
Agriculture	108.49	108.49	108.28	108.37	(0.12)
Commerce	171.89	171.89	179.03	181.81	9.92
Total Section C	1,800.20	1,799.12	1,791.98	1,801.59	2.47
Section D - Institution & Cultural Resources					
Crime Control Division	20.00	20.00	20.75	21.00	1.00
Justice	662.05	662.05	680.95	686.70	24.65
Public Service Regulation	39.50	39.50	39.50	39.50	0.00
Corrections	881.77	881.52	981.17	1,078.91	197.39
Labor and Industry	595.00	598.00	608.00	608.00	10.00
Military Affairs	94.90	94.90	104.13	107.20	12.30
Total Section D	2,293.22	2,295.97	2,434.50	2,541.31	245.34
Section E - Education					
Office of Public Instruction	115.68	112.68	115.43	115.68	3.00
Board of Public Education	4.00	4.00	4.00	4.00	0.00
School for the Deaf and Blind	81.68	81.68	81.68	81.68	0.00
Council on Vocational Education	2.50	2.50	0.00	0.00	(2.50)
Arts Council	10.00	10.00	8.50	9.00	(1.00)
Library Commission	28.50	28.50	28.50	28.50	0.00
Historical Society	49.13	49.13	52.13	52.13	3.00
Total Section E	291.49	288.49	290.24	290.99	2.50
Total - All Sections	10,031.50	9,994.64	10,237.53	10,369.20	374.56

*Does not include any FTE taken off budget as a result of HB 576, which eliminated the requirement that the legislature appropriate certain proprietary funds.

**Does not include the Montana University System.

***All FTE are now funded with proprietary funds, which do not require and appropriation.

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As shown, FTE funded in HB 2 increase by 374.56, or 3.7 percent, from the fiscal 1997 appropriated number to the fiscal 1999 requested number. Of this increase, 52.7 percent are in the Department of Corrections, which would see an increase in its FTE level of 22.4 percent in the Executive Budget. The Department of Public Health and Human Services shows an increase of 81.19 FTE, or 21.7 percent of the total increase. This increase is misleading in that the fiscal 1997 appropriated amount includes 28.0 FTE transferred from the Department of Environmental Quality with the transfer of the laboratories. Conversely, the decrease shown for DEQ is also misleading, as it also reflects the transfer. (A further 4.0 FTE shown as a decrease to that agency was actually a reduction that was initially reflected in the Department of Natural Resources and Conservation as part of the overall reduction in FTE expected by the legislature as a result of the reorganization of natural resource agencies.)

Pay Plan Annualization

The 1995 legislature passed HB 17, which provides two increases to compensation for most state employees:

- 1) creation of a market grid, and establishment of target market ratios. In fiscal 1996, state employees were provided a salary increase, not to exceed 5 percent, if they were below their target market ratio for their grade and years of service. In fiscal 1997, employees would be advanced along the grid, and receive another increase if they remained below the target market ratio. In addition, the target market salary against which the target market ratio was compared was increased by 2.5 percent. The total maximum increase for any employee was increased to 6 percent in fiscal 1997; and
- 2) a longevity increase from 0.9 percent of base salary for each contiguous 5 year period of uninterrupted state service, to 1.5 percent.

These adjustments were phased in, and therefore not in effect for the full year. In addition, fiscal 1997 contained an increase over fiscal 1996 that will be continued in the 1999 biennium. Consequently, the costs of the pay plan in the 1999 biennium are not fully reflected in the costs

experienced in fiscal 1996. While it is difficult to isolate the impacts of the pay plan on actual costs in fiscal 1996, the appropriation for the pay plan in that year was \$10.2 million. Estimated costs of the pay plan in the 1999 biennium are \$28.3 million per year.

Upgrades/Downgrades

The Executive Budget includes funding for a net 1,016.97 upgrades awarded by the Department of Administration (DofA) in fiscal 1996. DofA is required to “continuously review all positions on a regular basis and adjust classifications to reflect significant changes in duties and responsibilities.” Review of classification of positions can occur in several ways, including:

- 1) agency management initiated actions, whereby an agency may request that DofA reclassify a position to more accurately reflect its current duties, or to review in response to employee requests. About 85 percent of upgrades (1,120) and 75 percent of downgrades (204) were initiated by agencies.
- 2) DofA initiated actions, whereby DofA reviews a classification as part of its responsibility to “continuously review” all positions. About 2 percent of upgrades (26) and 7 percent of downgrades (18) resulted from this type of review.
- 3) employee appeals, in which an employee initiates a review through the filing of an appeal. Approximately 8 percent of upgrades (100) were a result of this process.

Table 14 shows, by agency, the number of upgrades/downgrades approved by DofA in fiscal 1996. As shown in the table, the cultural education agencies (Montana Arts Council, State Library Commission, and the Historical Society) received the largest percentage increases in net upgrades, including almost 60 percent of Montana Arts Council staff. The agency with the largest number of upgrades, comprising over 15 percent of total FTE, is the Department of Public Health and Human Services. For an issue associated with these upgrades, please refer to the writeup for that agency in the Agency Section (Volume I).

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Table 14
Upgrades/Downgrades Approved
July 1, 1995 through August 16, 1996

Agency	FTE*	Upgrades	Downgrades	Net Upgrades	Percent of Total
Governor's Office	51.15	4.75	0.00	4.75	9.3%
Fish, Wildlife, Parks	614.84	53.56	5.63	47.93	7.8%
Environmental Quality	369.17	29.00	12.00	17.00	4.6%
Transportation	1,923.90	135.48	12.95	122.53	6.4%
Livestock	126.71	2.50	2.00	0.50	0.4%
Natural Resources/Conservation	494.68	41.10	14.84	26.26	5.3%
Revenue	739.39	74.00	19.00	55.00	7.4%
Administration	370.52	40.17	12.08	28.09	7.6%
Agriculture	110.49	9.75	2.33	7.42	6.7%
Corrections	919.77	117.22	31.97	85.25	9.3%
Commerce	330.23	26.00	12.00	14.00	4.2%
Labor & Industry	666.59	31.00	27.90	3.10	0.5%
Military Affairs	97.20	13.00	2.00	11.00	11.3%
Public Health/Human Services	2,838.11	493.00	61.09	431.91	15.2%
Secretary of State	41.80	4.00	2.00	2.00	4.8%
Comm of Pol Practices	7.25	0.00	4.00	(4.00)	-55.2%
State Auditor	62.00	4.00	1.00	3.00	4.8%
Office of Public Instruction	136.03	8.15	0.00	8.15	6.0%
Board of Crime Control	20.00	3.00	2.00	1.00	5.0%
Justice	698.55	41.50	21.00	20.50	2.9%
Public Service Commission	39.50	1.00	0.00	1.00	2.5%
Commissioner of Higher Ed	76.20	5.00	0.00	5.00	6.6%
Montana University System	3,617.48	120.00	18.00	102.00	2.8%
Board of Public Ed	86.05	0.00	0.00	0.00	0.0%
Arts Council	11.00	6.50	0.00	6.50	59.1%
State Library	37.88	8.08	0.00	8.08	21.3%
Vo-Ed Advisory Council	2.50	0.00	0.00	0.00	0.0%
Historical Society	56.80	11.00	2.00	9.00	15.8%
Total	14,545.79	1,282.76	265.79	1,016.97	7.0%

*FTE are as of the June 30, 1996 PPP report.

DofA estimates that the net cost of these upgrades in the 1997 biennium is \$6.7 million. However, this cost does not include the cost of impacts of the fiscal 1997 portion of the 1997 biennium pay plan.

Vacancy Savings

Vacancy savings is the difference between what agencies actually spend for personal services and the cost of fully funding all positions for the entire year. Agencies will

experience vacancy savings for two primary reasons: 1) having unfilled positions for all or a portion of the year; and 2) a net reduction in the personal services costs of new hires compared to previous position incumbents. Two additional factors influenced the degree of vacancy savings that will derive:

1) agencies are not budgeted for certain termination costs, such as payout of annual and sick leave. These costs totaled approximately \$4.4 million in

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fiscal 1996; and

2) the legislature imposed a vacancy savings rate on selected programs to help fund the 1997 biennium pay plan. This vacancy savings rate averaged about 1.4 percent for all personal services. However, vacancy savings was not applied to all programs or agencies, or evenly among those programs to which it was applied.

In the 1999 biennium, the executive is proposing a 3 percent vacancy savings rate on most programs to partially fund the 1999 biennium pay plan. For a more detailed discussion of the pay plan and related issues, please see the "Executive Pay Plan" section of this volume.

Operating Expenses

Operating expenses increase \$166.6 million, or 19.3 percent, from the 1997 biennium. Over 88 percent of this increase can be explained in the following areas:

- the Department of Public Health and Human Services increases by \$111.7 million. Approximately \$110 million is due to the implementation of the mental health managed care contract in the 1999 biennium. Payment to the managed care organization is budgeted as a contracted service. Prior to implementation, payment for these services were primarily from grants and benefits;
- \$34.4 million in the Department of Corrections for in-state and out-of-state prison beds, expanded pre-release, additional medical costs, and additional juvenile care and custody;
- \$8.7 million in the Department of Fish, Wildlife, and Parks for various new proposals (including the automated licensing system) and other additions;
- \$4.4 million in the Office of Public Instruction,

including \$2.7 million for various new proposals; and

- a reduction of \$12.6 million in the Department of Transportation because of reduced contractor payments.

Grants and Benefits

Benefits increase by 3.1 percent in the Executive Budget and grants increase by 8.0 percent over the 1997 biennium levels. Increases in benefits are almost exclusively in the Department of Public Health and Human Services and are due to an additional \$40 million in new proposals, primarily for provider rate increases and benefits expansions for medicaid and child care. This increase is partially offset because total benefits for the 1997 biennium are projected to be \$8.0 million higher than the present law benefits for the 1999 biennium.

Grants increase a net \$25.3 million for the following reasons:

- a net increase of almost \$11 million in the Office of Public Instruction for various federal grants, as well as additional general fund grants under the timber harvest for technology program;
- \$11.4 million in the Department of Commerce;
- \$6.0 million in the Department of Transportation, primarily for a pilot project to improve airports; and
- \$4.9 million in the Board of Crime Control.

Offsetting these and other grant increases is a reduction in PHHS of \$17.6 million due to the reclassification of mental health managed care expenses from grants to operating expenses.

EXECUTIVE BUDGET CONCERNS

Executive Budget Concerns

The Executive Budget proposes several major policy recommendations, and in many cases, specific legislative action to accomplish the initiatives. However, there are two areas of concern with the Executive Budget.

Ending Fund Balance

The Executive Budget as presented provides a plan for a balanced general fund budget, with a proposed ending fund balance of \$38 million for the 1997 biennium. However, as shown in Table 3 on page 12, the ending fund balance as adjusted based on ROC revenue estimates would be \$138 million (\$65 million, excluding the impacts of reappraisal), if only present law services were funded. Then, if all executive general fund new proposals were approved, there would be an ending fund balance of a deficit \$29 million. This is over \$60 million short of the executive target ending fund balance of \$38 million. The differences between the executive proposal and the LFD analysis are explained in Table 5 on page 14.

While the executive proposal included a balanced budget prior to the ROC revenue adjustments, the proposed amount of a reserve needs to be carefully established to cover the risk inherent in the budget plan. This issue is further addressed in the discussion on "Fund Balance Adequacy" on page 85.

In addition to general fund balance concerns, the Executive Budget over-budgets several state special revenue accounts, including the gambling license account and the renewable resource grant and loan account, which is over-appropriated by almost \$1.8 million. These cases are pointed out in agency budget presentations as part of the LFD analysis.

Lack of Budget Detail

Major portions of the published Executive Budget are presented in outline or conceptual form, with the substance to be filled in later. The Executive Budget provides little explanation of the policies needed to implement the proposed changes or of the mechanics of implementing the initiatives. The same concern was raised regarding the 1997 biennium Executive Budget submission.

The lack of detail made a thorough analysis by staff of many proposals very difficult, and in many cases only questions could be raised since budget details were insufficient to reach conclusions and provide options. Further, without specifics, the legislature is unable to assess these measures in advance of the session. Statute recognizes the need of the legislature and its staff for early submission of budget detail of the entire Executive Budget and establishes a November 15 deadline for this submission. The SJR 23 Committee recognized the need for clear statutory requirements of this detail, and will introduce a committee bill to the 1997 legislature addressing submission requirements.

EXECUTIVE BUDGET CONCERNS

The following lists some of the areas where budget detail was considered incomplete.

Executive Pay Plan - The executive is proposing a pay plan initiative for the 1999 biennium which includes a 1.5 percent average pay plan and an insurance benefits increase. The final pay plan methodology is subject to union negotiations. Because negotiations are not complete, the executive was not able to provide any official detail in regard to how the increase would be allocated, even though statutorily required, except to state that it would be structured similar to previous pay plans. Other essential details are also excluded.

Statutory Appropriations - Statutory appropriation estimates for the 1999 biennium were not provided by the executive. In June 1996, the Legislative Finance Committee requested that the executive provide specific recommendations for all statutory appropriations in the Executive Budget to facilitate budget analysis (see page 76 of this volume). This requirement is included in a draft committee bill to be introduced in the 1997 session.

Tax Proposals - Two major tax proposals were proposed by the executive in the areas of: 1) property tax relief; and 2) coal tax. While the overall goal of the tax proposals was provided, specific details were not. Without detail, the LFD was unable to ascertain the fiscal implications of the two proposals. In regard to property tax relief, the executive proposes over \$70 million of relief, and includes 'place holders' in the Executive Budget. However, detail was not provided as to how reappraisal mitigation would be accomplished. Hence, impacts upon public school financing and individual income tax rates, and the overall effect upon the state budget, could not be evaluated.

The executive proposes initiatives to use coal tax trust funds, but provides no detail in the Executive Budget. The LFD was not initially provided the tax proposal for analysis, and 'place-holders' addressing it are not included in the Executive Budget. OBPP stated the initiative was "stand-alone," but executive policy initiatives regarding public school financing are included in the Executive Budget that are contingent upon coal tax funding.

Executive Revenue Estimate Detail - Historically, the Executive Budget has, at a minimum, contained a list of the major economic assumptions (interest rates, wage income, oil prices, etc.) upon which the executive's revenue estimates were based. The list was not provided for the 1999 biennium estimates.

Federal Welfare Reform - The Executive Budget does not address federal welfare reform in terms of block grants or impacts upon specific programs such as Child Support Enforcement. Federal welfare reform repeals the AFDC entitlement program and replaces it with a block grant (TANF) of a fixed amount through federal fiscal year 2002. The anticipated amount of the TANF block grant is significantly greater than the TANF-related expenditures (federal portion) contained in the Executive Budget. See the agency summary in Section B for a complete discussion of the new federal welfare reform law and related budget issues.

Medicaid Information/Allocation - The agency budget request did not include basic demographic, cost, and service information for projected Medicaid costs as required by Section 53-6-110, MCA. This kind of required information, combined with the department's budget, would give the legislature a basis upon which to analyze the executive recommendation for Medicaid funding. Without the information, the legislature is at a disadvantage when evaluating funding requests for present law services and new proposals.

Medicaid funding is needed for the Mental Health Managed Care program. The cost of the program has been estimated, but the Executive Budget does not reflect the allocation of this cost. The budgets of three divisions will be significantly impacted, including the Health Policy & Services Division, the Senior & Long-Term Care Division, and the Addictive & Mental Disorders Division. As contained in the Executive Budget, the budgets for these divisions will have to be re-allocated based on new information provided that is not in the Executive Budget as submitted.

GLOBAL EXECUTIVE BUDGET PROPOSALS

This section discusses several issues related to the Executive Budget that either do not pertain to any one agency, or which impact several agencies. The following provides an index to each issue discussed.

Supplementals	Page 49
Public School Funding	Page 51
Executive Pay Plan	Page 60
Structural Balance	Page 64
Inflation/Deflation	Page 66
Long-Range Planning Proposals	Page 67
Other Major Funds	
Highway Special Revenue Account	Page 68
State Compensation Insurance Fund	Page 69
Resource Indemnity Trust	Page 70

SUPPLEMENTALS

The executive is requesting \$15.5 million, of which \$13.8 million is general fund, in supplementals in fiscal 1997. As shown in Table 15, this request for general fund is significantly less than 1993 biennium requests, and lower than 1995 biennium requests.

For the second consecutive biennium, no supplementals have been requested for either human services benefits or school equalization costs. However, while fire suppression costs (which are not budgeted by the legislature during the session, and for which all applicable costs are funded in supplementals) of

**Table 15
General Fund Supplementals
1987 to 1995 Biennia**

Biennium	Millions
1987	\$32.7
1989	17.1
1991	20.4
1993	82.2
1995	19.9
1997 - Requested	13.8

almost \$15.5 million comprised the great bulk of supplemental requests in the 1995 biennium, they represent only 32 percent of total requests in this biennium, or \$4.5 million. In the 1995 biennium, all other agencies totaled only \$4.2 million. However, in this biennium, general fund requests from agencies total \$9.3 million. The majority of this total, or over \$8.9 million, is for two increases in the Department of Corrections (DOC) -- juvenile corrections and out-of-state housing of adult male prisoners. Total supplemental requests are shown in Table 16.

**Table 16
Executive Supplemental Requests
1997 Biennium**

Section/Agency/Purpose	General Fund	State Special	Federal	Proprietary	Total
<u>General Government and Transportation</u>					
No Supplementals					\$0
<u>Human Services</u>					
No Supplementals					\$0
<u>Natural Resources and Conservation</u>					
State Lands					
Fire Suppression	\$4,466,090				\$4,466,090
Livestock					
Meat Inspectors	55,973		55,974		111,947
Environmental Quality					
Voluntary Site Cleanup		900,000			900,000
<u>Corrections/Public Safety</u>					
Corrections					
Juvenile Corrections	\$5,328,305				\$5,328,305
Housing of Prisoners (Texas)	3,600,000				3,600,000
Justice					
Natural Resource Damage Pgm*		730,000			730,000
<u>Education</u>					
School for the Deaf and Blind					
Lawsuit Judgement	\$278,628				\$278,628
Workers' Compensation	60,039				60,039
Total All Sections	<u>\$13,789,035</u>	<u>\$1,630,000</u>	<u>\$55,974</u>	<u>\$0</u>	<u>\$15,475,009</u>

*Represents a loan from the coal severance tax.

SUPPLEMENTALS

The 1993 legislature passed legislation requiring that, in order to receive a supplemental appropriation in the first year, agencies must detail how expenditures in the second year of operation would be reduced to contain total expenditures within the biennial appropriation. In fiscal 1996, two agencies asked that appropriation authority be moved to fiscal 1996 from fiscal 1997 -- DOC for juvenile corrections costs (\$3,296,903) and the Montana School for the Deaf and Blind (MSDB) to pay a portion of the costs of a lawsuit (\$278,628). As shown in Table 16, both DOC and MSDB are requesting supplementals for these same purposes in fiscal 1997, and would replace all fiscal 1997 authority. Therefore, neither agency reduced expenditures in fiscal 1997 to cover the costs of the supplementals received in fiscal 1996.

While the increases requested for MSDB are unrelated to ongoing operations, the increases for the Department of Livestock and, most notably DOC, are part of ongoing operations. Consequently, the departments are requesting additional funds of the 1997 legislature to maintain these costs in the 1999 biennium. The Department of Livestock and the DOC requests in the 1999 biennium are discussed in more detail in the relevant agency narrative portion of the Appropriations by Agency and Program section of the Executive Budget/LFD Budget Analysis.

The individual supplemental requests are discussed in more detail in the individual agency narratives in the Agency Budgets and Analysis section.

PUBLIC SCHOOL FUNDING

Each elementary and high school district receives state funding through the BASE aid program. Each district receives a base amount regardless of enrollment, with an additional allocation on a per ANB (average number belonging) basis. The Governor makes two adjustments for BASE aid funding. The executive:

- 1) funds all projected enrollment increases; and
- 2) proposes an increase in the BASE aid schedules of 3.5 percent in fiscal 1999.

The Governor is also proposing an increase in funding for capital outlay projects in qualified school districts, as well as a change in funding source, and provides an appropriation from timber for technology to increase computer technology.

Since the Governor's proposal is based on present law

state funding for the 1999 biennium, this begins with a discussion of present law funding, followed by the executive new proposals to amend the current funding methods.

A history of public school funding, including a discussion of HB 28 and HB 667 to achieve equalization, is discussed under the "Reference" section of this volume.

Present Law State Funding for the 1999 Biennium

Direct state aid and guaranteed tax base aid are formula driven and depend on the number of ANB and the level of special education funding granted to school districts by the legislature. Table 17 below shows the number of ANB for elementary and high school districts for fiscal 1989 through fiscal 1999. Fiscal 1998 and 1999 ANB have been projected by the Office of Public Instruction.

Table 17
Average Number Belonging (ANB) in Montana Schools
FY1989-1999

Fiscal Year	Elementary	% change	High School	% change	Total	% change
1989	104,386		44,932		149,318	
1990	105,763	1.3%	43,327	-3.6%	149,090	-0.2%
1991	105,593	-0.2%	42,407	-2.1%	148,000	-0.7%
1992	106,579	0.9%	41,890	-1.2%	148,469	0.3%
1993	108,523	1.8%	42,614	1.7%	151,137	1.8%
1994	111,497	2.7%	45,457	6.7%	156,954	3.8%
1995*	114,758	2.9%	47,811	5.2%	162,569	3.6%
1996	114,734	-0.0%	49,045	2.6%	163,779	0.7%
1997	114,154	-0.5%	50,580	3.1%	164,734	0.6%
1998**	113,987	-0.1%	52,577	3.9%	166,564	1.1%
1999**	113,257	-0.6%	54,167	3.0%	167,424	0.5%

* Includes for the first time students who spend more than 1/2 day in special education class

** OPI projections of ANB

PUBLIC SCHOOL FUNDING

The population of elementary students is expected to continue on the downward trend first observed in fiscal 1996. This trend is mainly in the early elementary grades. The number of middle school students is expected to increase slightly. The number of high school students is expected to rise substantially, however at lower rates than observed in the early nineties.

The ANB numbers for fiscal 1998 will be based on enrollment counts in October 1996 and February 1997. Preliminary data from the October 1996 count indicate that the growth in high school students may be lower than expected. If the enrollment numbers in the February count confirm this finding, the state K-12 cost estimates will have to be adjusted downward.

Table 18 presents the current law K-12 cost estimates for distribution to schools for fiscal 1997 through fiscal 1999. Actual state spending during fiscal 1996 is shown also. The estimates for the state's share of transportation and special education, as well as the other smaller cost items are not expected to change much from their fiscal 1996 levels. The SIMMS grant for \$1 million is replaced by \$1 million in increased School Facilities Reimbursement. The state's share of transportation will increase by approximately \$400,000. A new program which directs that revenue from timber harvest on school lands be used for technology acquisition by school districts will increase spending during the biennium by \$4.3 million. However, the current law estimates are shown as zero because legislation will be required to spend this money.

Table 18
Present Law Distribution to Schools
Fiscal 1996-1999 (in Millions)

Cost Component	Actual Fiscal 1996	Present Law Fiscal 1997	Present Law Fiscal 1998	Change from FY 1996	Present Law Fiscal 1999	Change from FY 1996	Biennial Change from FY 1996
Direct State Aid	270.452	271.991	275.927	5.475	277.864	7.412	12.887
General Fund GTB	118.025	120.096	121.260	3.235	121.586	3.561	6.795
General Fund GTB - Reappraisal	0.000	0.000	(11.486)	(11.486)	(4.194)	(4.194)	(15.680)
Retirement GTB	18.395	19.166	19.869	1.474	20.599	2.203	3.677
Retirement GTB-Reappraisal	0.000	0.000	(1.000)	(1.000)	0.000	0.000	(1.000)
Transportation	10.160	10.603	10.300	0.140	10.400	0.240	0.380
Special Ed	33.788	34.173	33.738	(0.050)	33.738	(0.050)	(0.099)
School Foods	0.660	0.662	0.662	0.002	0.662	0.002	0.004
Gifted & Talented	0.152	0.148	0.150	(0.002)	0.150	(0.002)	(0.003)
Secondary Vo-Ed Ed	0.650	0.650	0.650	(0.000)	0.650	(0.000)	(0.000)
Adult Basic Ed	0.250	0.250	0.250	0.000	0.250	0.000	0.000
In-State Residential Svcs	1.042	0.908	0.975	(0.067)	0.975	(0.067)	(0.133)
SIMMS Grant	0.500	0.500	0.000	(0.500)	0.000	(0.500)	(1.000)
School Facilities Reimbursement	1.500	2.000	2.000	0.500	2.000	0.500	1.000
Trees for Technology *	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other	0.173	0.168	0.174	0.001	0.174	0.001	0.003
Total	455.746	461.314	453.469	(2.276)	464.854	9.108	6.832

*HB 201, passed by the 1995 legislature, authorized this program but did not provide authority for timber revenue to be spent; spending authority will require enabling legislation.

The cost estimates for BASE aid, which includes direct state aid, school general fund GTB, and retirement GTB will be impacted by two factors: 1) SB 417 passed by the 1995 legislative session which reduced the tax rate on personal

property; and 2) the tax year 1997 reappraisal of property. These are discussed in the paragraphs that follow.

1995 Legislation

PUBLIC SCHOOL FUNDING

During the 1995 legislative session two bills substantially impacted state spending on K-12 education. Each of these is discussed below.

Timber for Technology

House Bill 201 requires the state to increase timber sales from state lands consistent with an annual sustainable yield of 45 million board feet to 55 million board feet. Also, HB 201 capped the amount of timber sale revenue deposited in the general fund that can be used for general government purposes by limiting such revenue to that associated with the first 18 million board feet of harvest. Any excess timber revenue is to be deposited in the general fund but is reserved for deposition in school districts' technology acquisition funds to buy new classroom technology and to pay for technical training for school personnel. No appropriation authority was provided to move excess timber revenue into district technology funds during the 1997 biennium. Legislation will have to be passed during the 1997 legislative session approving the spending authority.

No excess timber sale revenue occurred in fiscal 1996 and none is expected in fiscal 1997. However, it is expected that \$4.3 million will be available for the 1999 biennium.

The Impact of SB 417 on State GTB and School Budgets

Senate Bill 417 lowered the property tax rate on business equipment and machinery from nine percent to six percent over a three year period beginning Jan 1, 1996. School districts will be reimbursed for the loss of property tax revenues for 3 years. For the tax year beginning January 1, 1999, the reimbursements will be phased out by 10 percent each year until they are entirely eliminated in fiscal 2009.

School districts received their first two reimbursements in June and December 1996, and will receive further reimbursements every June and December throughout the coming biennium. The reimbursements disappear if growth in personal property market values in a district exceed the percentage reductions in the personal property tax rate. School districts receiving reimbursements must distribute them to district budgeted funds in proportion to the mill

levies of the district.

The reimbursements a district receives in its general fund are counted as nonlevy revenue and must be used to offset GTB aid and district BASE mill levies.

Some districts, however may not receive in reimbursements the full value of the loss in taxable value. SB 417 does not reimburse districts for the loss in value of personal property which receives local tax abatements. In addition, as a result of the reduction in personal property tax rates, the rate on class 12 property (railroads and airlines) will be reduced. SB 417 does not reimburse districts for this loss.

SB 417 will have an impact on GTB aid to districts in two ways. GTB aid to GTB-eligible districts will be reduced in each year in which the tax rates are reduced and reimbursements are received. The reason is that reimbursements received as nonlevy revenues supplant BASE tax revenues and GTB aid that are used to fund spending below the BASE budget. Each dollar of local tax revenue levied to fund the BASE budget is leveraged against state GTB dollars, with the ratio of GTB to tax dollars as high as 10 in some districts. Converting tax base into nonlevy revenue replaces leveraged dollars with unleveraged dollars. As a result the state will save \$2 million in GTB aid during 1999 biennium.

In the second year, after the tax rate is reduced, each district will calculate a new GTB subsidy per mill, which is based on its taxable wealth relative to the state average taxable wealth. Districts that have tax bases in which the share of personal property is high relative to the state average share will lose tax base quicker than the average district. Thus, districts that are heavily dependent upon personal property will become poorer and will receive relatively more GTB aid than previously. Conversely, districts in which personal property commands a relatively small share of the total property tax base will lose GTB aid. The impact on the total level of state GTB aid may be neutral, but will depend on the degree to which districts with high personal property shares are GTB-dependent.

PUBLIC SCHOOL FUNDING

The Impact of the 1997 Reappraisal on State GTB and District General Fund Budgets

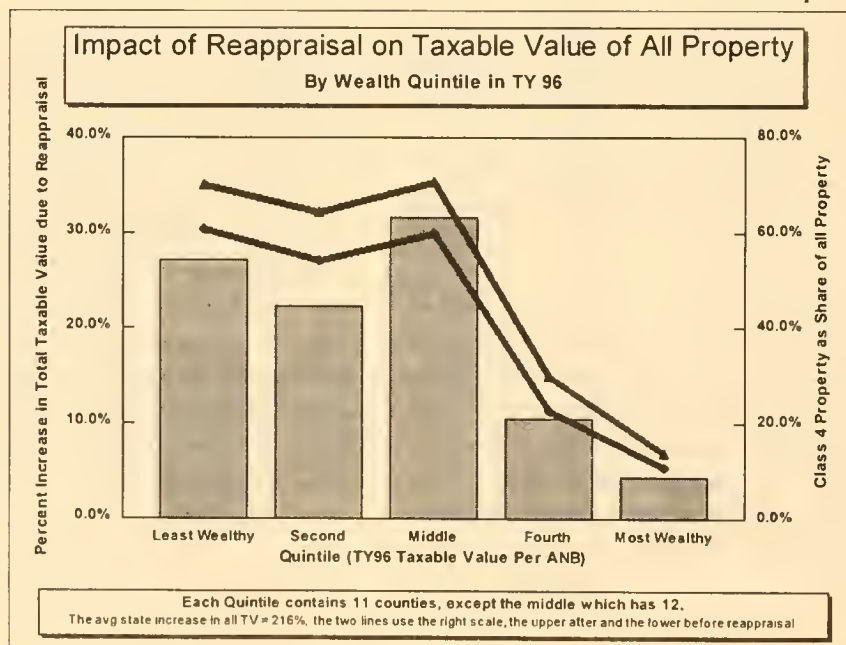
On January 1, 1997, all residential and commercial property in property class 4, agricultural property, and forestlands will be reappraised by the Department of Revenue (DOR). DOR has provided estimates of the impact of reappraisal (and the addition of new property to class 4) on each county's property tax base. The new values are not available by school district at this time.

In tax year 1997, reappraisal will add an estimated \$402.7 million to the statewide tax base, an increase of 21.6 percent over the tax base existing in tax year 1996. Virtually all but one county will experience an increase in its tax base and, although district data are not available, the vast majority of school districts are expected to experience increases in their tax bases. As a result school districts that experience tax base increases will reduce BASE mills in fiscal 1998. Over-BASE mills may be reduced depending on the extent of the increase in the property tax base and on the growth in general fund budgets. District trustees may ask voters to increase general fund budget authority by no more than the greater of 4 percent or 4 percent per ANB above the previous year's budget.

The reduction in average BASE mills by school districts will result in state GTB cost savings of approximately \$11.5 million in fiscal 1998. GTB aid to schools is the result of BASE mills times each district's GTB subsidy per mill. In fiscal 1998, BASE mills will fall as a result of reappraisal in most districts, but the subsidy per mill is fixed and known because it is based on data from the prior year. As a result of the reduction in state GTB aid, school districts will require \$11.5 million in increased BASE levy revenue, which will be generated from the enlarged tax base, albeit at reduced BASE mill levies for the average school. The fiscal 1998 state savings in GTB aid are a one-time phenomenon due to increases in taxable values in GTB dependent districts.

In fiscal 1999, GTB cost savings of \$4.2 million will be realized. The reason for this is that reappraisal will cause a shuffling of wealthy and less wealthy school districts as the GTB subsidy per mill will be recalculated using the reappraised tax base of tax year 1997. Graph A below shows that the largest increases in property wealth due to reappraisal and the addition of new property will be in counties that in 1996 were in the bottom 60 percent of the wealth hierarchy.

Graph A



PUBLIC SCHOOL FUNDING

In the graph, wealth is measured as taxable value per ANB in each county. The counties are ordered from less wealthy to wealthy and divided into quintiles. That is, the lowest quintile contains 20 percent of the counties (11 counties) with the lowest taxable value per ANB in tax year 1996, and the highest quintile contains 20 percent of the counties with the highest tax base per ANB. The height of the bars shows the increase in total taxable value due to reappraisal. For the state, the average percent increase is 21.6 percent.

Reappraisal will reduce the variability in the tax base between counties, making less wealthy districts more wealthy. As a result, in fiscal 1999 and beyond the less wealthy districts will earn approximately \$4.2 per year less in GTB aid. Property taxpayers in these districts will see their property taxes rise by the same amount.

Also shown in the chart is the relative proportion of class 4 property as a percent of the entire tax base. After reappraisal, the 34 counties within the first three quintiles will have tax bases in which class 4 property as a share of the tax base will average 67.9 percent, compared with 57.7 percent in tax year 1996. For the 22 counties within the last two quintiles, the proportions after reappraisal will be 30 percent and 14 percent. The majority of ANB in the state are also in the counties in the first three quintiles, at 89.5 percent.

If school districts reduce mills after reappraisal, class 4 taxpayers will enjoy some relief, but it is likely that their property tax bills will still increase above the amount paid on tax year 1996 property. Non-class 4 taxpayers however will see reductions in their tax bills. Furthermore, the tax relief enjoyed by non-class 4 property taxpayers will increase the most in counties where the class 4 share of the tax base is the highest. This will be true for any jurisdiction that lowers mill levies; i.e., class 4 taxpayers will pay more, and other class taxpayers will pay less.

Executive Proposals for K-12 Education

The executive proposes 4 major changes affecting K-12 finance. The executive proposes to:

- increase the per-district and per-ANB entitlements for K-12 education by 3.5 percent in fiscal 1999;
- increase the amount available for school facility reimbursements from \$3.5 million spent during the 1997 biennium to \$5.5 million during the 1999 biennium;
- remove funding for the school facility reimbursement program from the state general fund and replace it with funding from coal severance tax revenue; and
- provide authority to spend \$4.3 million on providing computer technology and expertise to school districts from revenue derived from timber harvest on school lands.

Entitlement Increases

The executive proposes increasing the per-district and per-ANB entitlements that school districts use to build maximum budgets by 3.5 percent. Table 19 shows entitlements under current law and proposed law.

Table 19 K-12 General Fund Entitlements		
	Current Law FY 97-98	Proposed Law FY 99
Elementary		
Per School District	\$17,190	\$17,790
Per ANB *	3,343	3,459
High School**		
Per School District	\$191,000	\$197,690
Per ANB	4,680	4,843
* The per ANB entitlement for elementaries is reduced by \$.20 for each additional ANB up to the 1,000th ANB and for high schools by \$.50 per ANB for the 800th ANB.		
** Schools with ANB in 7th and 8th grades are allowed to use the high school per ANB entitlements for their 7th and 8th graders and a pro rata share of the high school per district entitlement.		

PUBLIC SCHOOL FUNDING

The proposal to increase entitlements will increase the maximum and BASE budgets for each school. It will also increase direct state aid costs, state guaranteed tax base (GTB) costs, and therefore district general fund revenues funding the BASE budget.

As shown in Table 20, the increase over present law in the state distribution to schools during the 1999 biennium as a result of the executive's proposal is estimated to be \$16.5 million. Of this amount \$562,000 occurs in fiscal 1998 and \$15.9 million occurs in fiscal 1999. Of the \$15.9 million increase in fiscal 1999, \$15.0 million is due to the entitlement increases. The executive has proposed two conflicting estimates of fiscal 1999 K-12 spending.

In internal documents, the executive proposes to fund the increase of \$15.0 million in new spending in fiscal 1999 by utilizing GTB savings generated in fiscal 1998 and fiscal 1999 as a result of reappraisal of residential, commercial, agricultural and forestland property. GTB savings as a result of reappraisal are estimated to be \$12.5 million in fiscal 1998 (\$11.5 in general fund GTB and \$1 million in retirement fund GTB) and \$4.2 million in fiscal 1999, a total of \$16.7 for the biennium.

The executive's estimates for GTB savings are \$10.7 million in fiscal 1998, \$4.0 million in fiscal 1999 for general fund GTB, and \$0.0 million for retirement fund GTB. Total GTB savings due to reappraisal are thus \$14.7 million, according to the executive.

Table 20
Distribution to Schools
Comparison of Executive Proposed and LFA Present Law
Fiscal 1996-1999 (in Millions)

Cost Component	Actual Fiscal 1996	Present Law Fiscal 1997	Present Law Fiscal 1998	Executive Proposed Fiscal 1998	FY98 Increase/ Decrease over Present Law	Present Law Fiscal 1999	Executive Proposed Fiscal 1999	FY99 Increase/ Decrease over Present Law	Biennial Increase/ Decrease over Present Law
Direct State Aid	\$270.452	\$271.991	\$275.927	\$276.021	\$0.094	\$277.864	\$288.077	\$10.213	\$10.307
General Fund GTB	118.025	120.096	121.260	120.499	(0.761)	121.586	126.373	4.787	4.026
General Fund GTB - Reappraisal	0.000	0.000	(11.486)	(10.663)	0.823	(4.194)	(3.965)	0.229	1.052
Retirement GTB	18.395	19.166	19.869	19.770	(0.099)	20.599	20.495	(0.104)	(0.203)
Retirement GTB-Reappraisal	0.000	0.000	(1.000)	0.000	1.000	0.000	0.000	0.000	1.000
Transportation	10.160	10.603	10.300	10.300	0.000	10.400	10.400	0.000	0.000
Special Ed	33.788	34.173	33.738	33.738	0.000	33.738	33.738	0.000	0.000
School Foods	0.660	0.662	0.662	0.662	0.000	0.662	0.662	0.000	0.000
Gifted & Talented	0.152	0.148	0.150	0.150	0.000	0.150	0.150	0.000	0.000
Secondary Vo-Ed Ed	0.650	0.650	0.650	0.650	0.000	0.650	0.650	0.000	0.000
Adult Basic Ed	0.250	0.250	0.250	0.250	0.000	0.250	0.250	0.000	0.000
In-State Residential Svcs	1.042	0.908	0.975	0.975	0.000	0.975	0.975	0.000	0.000
SIMMS Grant	0.500	0.500	0.000	0.000	0.000	0.000	0.000	0.000	0.000
School Facilities Reimbursement	1.500	2.000	2.000	0.000	(2.000)	2.000	0.000	(2.000)	(4.000)
Trees for Technology *	0.000	0.000	0.000	1.505	1.505	0.000	2.795	2.795	4.300
Other	0.173	0.168	0.174	0.174	0.000	0.174	0.174	0.000	0.000
Total	\$455.746	\$461.314	\$453.469	\$454.031	\$0.562	\$464.854	\$480.774	\$15.920	\$16.482

*HB 201, passed by the 1995 legislature, authorized this program but did not provide authority for timber revenue to be spent; spending authority will require enabling legislation.

PUBLIC SCHOOL FUNDING

In the "Governor's Budget Highlights, 1998-99", the executive's proposed spending in fiscal 1999 is \$488.7 million. This is made up of the \$480.7 million for proposed law spending as shown in Table 4, plus \$3 million in coal severance tax revenue for school facility reimbursements, \$1 million in state special revenue for traffic safety, and \$4 million in foregone GTB savings. In other words, the executive proposes to implement unspecified legislation which will deter the GTB impacts of reappraisal before they occur.

The existence of the GTB savings during the 1999 biennium will depend on the method by which the legislature provides relief for property tax increases associated with reappraisal. Although the executive has declared that property tax relief will be offered, the method by which property tax relief is to be accomplished has not been specified by the executive. However, two methods are logical choices:

1) reduce the statewide mill levies. If statewide mill levies (the 95 mills) are reduced, the one-time GTB savings with which the executive proposes to fund the permanent increase in schedules will be realized. However, lowering the statewide mill levies will result in tax reductions for non-class 4 property, and a larger share of the tax burden will be borne by class 4 property.

2) reduce the tax rate applied to commercial, residential, agricultural and timber land property. If the classification tax rates are reduced, the GTB savings will disappear, and the permanent increase in K-12 entitlements will need to be funded from another source. Statewide, class 4, agricultural and timberland property will maintain a constant share of the tax base. However, a reduction in the statewide average tax rate for these classes of property will reduce the tax base in counties and school districts where reappraisal has caused increases in value that are less than the statewide average increase.

Impacts on School District Budgets and Tax Revenue Requirements

Increasing entitlements increases the maximum and BASE budgets each district must calculate in order to arrive at the limits in which its actual budget may move. (Direct state aid is calculated as 40 percent of a district's maximum budget and is revenue that each district receives from the state. State GTB aid is used to fund the second 40 percent of the maximum budget. The amount of GTB aid a district receives is inversely related to the wealth of the district. Not all districts receive GTB aid.)

The executive's entitlement proposal increases state funding for school districts' general fund in fiscal 1999. Because district trustees cannot raise general fund budgets above the prior year without a vote, district trustees will need to choose between utilizing the additional state money to provide tax relief to district taxpayers or asking voters to approve increases in district general fund budgets.

Under current law, district trustees receiving additional state aid in their district general fund budgets must reduce other sources of general fund revenue, or else seek additional spending authority from the voters in the district. If voters approve, districts will be able to increase spending authority without increasing property tax requirements. An example will make this clear. Suppose a district receives \$150 in additional direct state aid, an additional \$100 in GTB aid, and its ratio of GTB to BASE taxes is two. BASE tax requirements will increase by \$50, and the total additional revenue funding the BASE budget of the district will be \$300. If the district retains its prior year budget, district trustees will reduce over-BASE taxes by \$300, for a net reduction in taxes of \$250. Or the district could increase budget authority by \$250, with the voters' approval, without raising taxes. The tax savings, or the tax-neutral increase in budget authority, is greater the more a district is GTB-dependent. This occurs because unleveraged over-BASE taxes are swapped for leveraged BASE taxes.

Under current law, some school districts will be required to increase general fund budget authority because of the increased entitlements in the executive proposal. In fiscal 1998, all schools will be required to budget at least at the

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fiscal 1998 BASE level (approximately 80 percent of the fiscal 1998 maximum budget). In fiscal 1999, when the executive proposal goes into effect, schools that were budgeting at levels within 3.5 percent of the BASE budget will be required to increase budget authority. These districts will receive additional state aid to fund this increase. However, district property taxes for these schools are estimated to increase \$1.4 million between fiscal 1998 and fiscal 1999.

District trustees and district voters will be sensitive to the level of property taxes because of the impact of reappraisal in fiscal 1998. Unless the legislature passes legislation which forestalls the reappraisal impact, the state will experience GTB savings of \$12.5 million in fiscal 1998, but school districts in fiscal 1998 will have to offset this loss by raising the same amount in property taxes. The executive's proposal to increase entitlements will not produce a potential saving in property tax liability for district taxpayers until fiscal 1999.

Summary - Unless legislation is offered to deter the impacts of reappraisal, the executive proposes allowing the state's share of general fund support to decline in fiscal 1998 and use the savings to fund a 3.5 percent entitlement increase in fiscal 1999. In the absence of legislation enacting an entitlement increase and reappraisal deterrence, school district property taxes will increase in fiscal 1998 and fiscal 1999 by \$16.7 million because of reappraisal and the reduction in state support associated with it. The entitlement increase will reduce local property taxes in fiscal 1999 by \$15.0 million.

LFD Issue - There are many ways to increase the state's share of school general fund support:

- 1) should the legislature increase state support in fiscal 1998 in order to forestall the local property tax increase that will occur in fiscal 1998? This may be done by deterring the impacts of reappraisal before they occur and/or increasing entitlements in fiscal 1998.
- 2) should the legislature increase state support in other ways by raising the GTB percentage or the

direct state aid percentage?

- 3) the legislature should be aware that the GTB cost savings proposed by the executive to be used to fund the entitlement increases will disappear if the legislature also attempts to mitigate the rise in class 4 property values by reducing the class 4 tax rate.

School Facility Reimbursements

The executive proposes increasing the amount the state reimburses eligible school districts for their capital debt service expenditures. The state spent \$1.5 million in 27 districts in fiscal 1996 and will spend \$2.0 million in a projected 35 districts in fiscal 1997. Under current law, the state provides capital outlay reimbursements to schools with debt service payments associated with bonds that were sold after July 1, 1991.

A school must be GTB-eligible to be eligible for the state reimbursement. Its taxable value per ANB must be below 121 percent of the state average taxable value per ANB. Under the formula, a school district's facility entitlement is a set dollar amount per ANB, which varies depending on whether the student is in grades 1 through 6, 7 through 8, or 9 through 12. If a district is GTB-eligible, its school facility reimbursement is the lesser of its actual debt service expenditures or the calculated reimbursement. When the total available reimbursements required exceed the amount available in the state appropriation, the reimbursements are prorated. Except for fiscal 1995, the proration percentages have exceeded 90 percent since fiscal 1994.

The executive proposes increasing the appropriation for capital outlay reimbursements by \$500,000 per year during the 1999 biennium. Since the inception of the program in fiscal 1994, an average of 7 new districts per year have been added.

Under current law, funding for capital outlay reimbursements has been appropriated from the state general fund. The executive proposes funding the reimbursements during the 1999 biennium out of coal severance tax revenues.

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Assuming that the legislation proposed by the executive states that trust principle, instead of severance tax revenue, will provide the funding for the school facility reimbursements, the bill will require a three-quarter vote of each house to pass. Should it not pass, the amount of money available for school reimbursements will be zero, unless it is included in HB 2. At the levels of funding during the 1997 biennium, a dilution of support among schools' debt service commitments will result. The executive has offered no alternative plan to fund school facility reimbursements.

Summary - The executive has proposed to increase funding for school facility reimbursements by \$2 million during the 1999 biennium and has proposed to fund the entire program out of coal tax funds.

LFD Issue - Using coal trust principle requires a three-quarter majority of each house. If the required super-majority is not achieved, the existing school facility reimbursements program will be used to support debt service in more schools and will face dilution.

Timber Harvest for Technology

The 1995 legislature enacted HB 201 which mandated that

timber sale revenue from school lands in excess of that associated with the first 18 million board feet of harvest per year be used to fund school district technology acquisition funds. No appropriation authority was contained in HB 201.

The executive proposes to grant the appropriation authority to spend the excess timber revenues expected to be generated during the 1999 biennium. Personnel in the Department of Natural Resources and Conservation (DNRC) have estimated that timber harvest on school lands in fiscal 1998 and fiscal 1999 will be 28 million board and 35 million board feet, respectively. This will generate \$4.3 million in revenue that may be used for the purposes outlined in HB 201. The executive proposes to allocate the funds based on the relative size of the district's BASE budget. The spending authority would be limited by the actual timber revenue that becomes available during the 1999 biennium.

Sales of timber on school lands are conducted by DNRC but must be approved by the Land Board. The amount of excess timber revenue available for this program will depend on the speed with which the Land Board is willing to achieve the "sustainable yields" mandated in HB 201.

EXECUTIVE PAY PLAN

The executive is proposing a pay plan for the 1999 biennium. As of the writing of this report, the administration was negotiating with various unions to create a plan for introduction to the legislature. However, at this time only a proposal that has not been finalized or agreed to by the various unions is available for analysis.

The administration is currently negotiating within two parameters: 1) a salary increase of 1.5 percent each year; and 2) an insurance increase. According to the executive, the salary increase is likely to be of the same nature as the increase provided by the 1995 legislature. (Please note that the executive includes general fund of \$933,172 and tuition of \$363,966 for an additional 1.0 percent per year increase in the university system faculty salaries in the 1999 biennium beyond the 1.5 percent included in the pay plan proposal. In addition, the executive includes tuition for a further 4.4 percent increase in faculty salaries.) In addition to these salary and benefit contribution adjustments, the executive will propose modifications to the pay and classification system. The executive estimates the total cost of the pay plan at \$34.95 million over the biennium, as shown in Table 21.

almost all budgets; and

2) a 3 month delay in hiring FTE added in new proposals.

Because the executive plan has not been finalized or concurred in by employee unions, discussion is confined to broad remarks on the potential structure, and on methods to finance the plan.

Background

Most state employees are paid from one of several pay matrices. The matrices are based upon an entry and market salary level relevant to each pay grade. Grade is assigned to each position based upon a number of factors, primarily skill level required. A market salary for each grade is also listed in statute. The Department of Administration is required to conduct a survey of surrounding states to determine how the market salaries compare. The 1995 legislature passed a major pay plan bill that changed the way in which pay for most state employees was determined. The legislation established target market ratios for each grade and at each year of state service. If the employee's salary was not at that percentage of the market salary, the employee's salary was adjusted to the level necessary (subject to a maximum increase). In the second year of the biennium, the plan also adjusted the market salaries upward by 2.5 percent. Consequently, each employee was guaranteed at least a 2.5 percent increase in that year. Generally, the grid established that the lower the grade, the fewer years of service assumed necessary for the employee to reach 100 percent of market.

The following table shows a sample of the target market ratio in effect in fiscal 1997 for several grades. The top of the grid is years of service, while the left side is grade. Using an example from the grid, a grade 12 employee with 6 years of experience should be paid at least 97.5 percent of the target market salary.

Table 21
Costs of the Proposed Executive Pay Plan
1999 Biennium
in Millions

Adjustment	Fiscal 1998	Fiscal 1999	Total Biennium
<u>Funding by Type of Adjustment</u>			
Salary and Benefits	\$7.563	\$15.373	\$22.936
Insurance Contribution	<u>3.673</u>	<u>8.340</u>	<u>12.013</u>
Total	<u>\$11.236</u>	<u>\$23.713</u>	<u>\$34.949</u>
<u>Funding by Source</u>			
General Fund	\$4.697	\$9.990	\$14.687
Other Funds	<u>6.539</u>	<u>13.723</u>	<u>20.262</u>
Total	<u>\$11.236</u>	<u>\$23.713</u>	<u>\$34.949</u>

The executive is proposing to fund the pay plan with vacancy savings imposed from two adjustments:

1) a 3 percent across-the-board adjustment to

EXECUTIVE PAY PLAN

Table 22
Sample of Target Market Ratios
1997 Biennium

Grade	Years of Service										
	0	1	2	3	4	5	6	7	8	9	10
8	0.836	0.862	0.889	0.916	0.944	0.972	1.000	1.000	1.000	1.000	1.000
10	0.832	0.857	0.882	0.908	0.934	0.961	0.988	1.000	1.000	1.000	1.000
12	0.828	0.851	0.875	0.899	0.924	0.949	0.975	1.000	1.000	1.000	1.000
14	0.824	0.846	0.869	0.892	0.915	0.939	0.963	0.988	1.000	1.000	1.000
16	0.820	0.841	0.863	0.885	0.907	0.930	0.953	0.977	1.000	1.000	1.000

The legislature delayed implementation of the pay plan until October 1, 1995, or three months into fiscal 1996. The adjustment in the second year was also delayed until October 1 of that year. Consequently, costs in the second year, when the pay plan was fully implemented, are less than yearly continuing costs in the 1999 biennium.

Adjustment to Salaries

As stated earlier, the executive is negotiating with various employee unions on a pay plan proposal, and does not have final agreement. Instead, the executive states that they are negotiating based upon two parameters: 1) a total funding level available, and 2) the current market based, target market ratio system. Therefore, there are a number of questions that remain unanswered, including:

- If an increase based on movement on the target market ratio grid is proposed, those employees below the ratio would receive an increase. Because a total overall increase is the parameter used for negotiations and funding, rather than the cost of a specific type of adjustment, how will this adjustment take place on the current target market ratios grid? This adjustment could conceivably be done via at least two ways:

1) employees would receive an increase based upon an additional year of service (the employee would progress up the grid). Consequently, the target market ratio would be higher and any employee below the ratio would receive an increase; and/or

2) no progression up the grid would take place. Adjustments would be given to all employees currently below their target market ratio at their current years of service.

- Will movement on the target market ratio grid be the only adjustment, which would target certain employees, or will the market salaries also be adjusted, which will result in some increase for all state employees?

- In the 1997 biennium, a limit on the maximum increase any state employee could receive was imposed. Will there be a similar limitation placed on the percentage change in salary in the 1999 biennium?

- Since cost is one of the primary parameters, will adjustments be delayed until a certain time into the fiscal year to allow a greater increase to employees? If so, costs to maintain the increase in the 2001 biennium will increase.

Insurance Adjustment

The executive is also proposing an adjustment in the amount of contribution made by the state to employees' insurance coverage. The state currently provides life, dental, and health insurance contributions totaling \$225 per month. The executive would increase this monthly rate to \$245 in fiscal 1998 and \$270 in fiscal 1999. Estimated costs are \$3.7 million in fiscal 1998 and \$8.3 million in fiscal 1999. Total

EXECUTIVE PAY PLAN

ongoing costs in the 2001 biennium are \$8.3 million each year, or \$16.6 million over the biennium.

Funding

The previous pay plan was funded with a combination of vacancy savings and reductions in FTE. However, only the FTE reductions could be considered an on-going source of funding (through nonexpenditure of funds for the reduced FTE) to fund this on-going expenditure obligation. Vacancy savings, unless it is continued indefinitely, is only a temporary funding source. Consequently, any vacancy savings taken to fund pay plan in the future must take other on-going costs into consideration. Otherwise, the pay plan is at least partially unfunded.

Issues

There are several issues with the pay plan funding proposed by the executive:

1) the vacancy savings rate included in the budget is not sufficient to fund costs of the pay plan in the 1999 biennium. This insufficiency is due to two factors:

a) as the executive recognizes in his proposal, the total amount of vacancy savings reduced from agency budgets is about \$30.05 million, or \$4.9 million less than the total \$34.95 million estimated costs of the pay plan. Vacancy savings is not imposed on instructional staff in the university system. The executive states that this amount is equal to the vacancy savings foregone on instructional staff;

b) the executive is proposing a personal services contingency pool to assist agencies that cannot meet their 3 percent vacancy savings requirement. This contingency totals \$13 million over the biennium, or about 43 percent of the total vacancy savings imposed. The contingency pool would be appropriated by the legislature and become an obligation. The executive is proposing this high contingency in part because the vacancy savings rate is taken on almost all positions, including those

that must be filled 24 hours per day, 7 days per week, such as direct care positions in certain state institutions and guards at Montana State Prison. If the contingency is factored, the total vacancy savings imposed to fund the pay plan is \$17.05 million, or \$17.9 million less than estimated costs. Consequently, the executive is funding less than one-half of the projected 1999 biennium pay plan costs from present law levels. The balance requires new funding.

2) As stated earlier, costs of this additional pay plan adjustment in the 2001 biennium will be significantly higher than costs in the 1999 biennium. If the executive proposes that a 1.5 percent pay plan adjustment be made at the beginning of both fiscal 1998 and 1999, the cost in the 2001 biennium will be about \$48 million. Annualization costs and consequent vacancy savings rates necessary to fund the plan if any adjustments are delayed in fiscal 1999 would be higher. For example, if implementation of the pay adjustment is delayed for three months, the 2001 biennium costs would be about \$52 million.

3) On-going costs of the 1997 biennium pay plan are not fully funded in the 1999 biennium. It was the stated goal of the executive in his proposal to the 1995 legislature to fully fund the 1997 biennium pay plan with vacancy savings and FTE reductions. However, costs in the 1999 biennium for this pay plan are significantly higher than the 1997 biennium costs due to the increase provided in the second year of the biennium (fiscal 1997), and the delayed implementation. The following table compares 1999 biennium costs to 1997 biennium costs. The table also shows the funding mechanism used to fund those costs. As shown, the pay plan is significantly underfunded in the 1999 biennium because of the increased costs and because vacancy savings is no longer applied against these costs. (To derive the continued savings due to eliminated positions, a 3 percent increase is applied each year to the fiscal 1996 savings. It is difficult to determine whether the executive is adding FTE in the 1999 biennium new proposals to replace FTE reduced, with the exception of several positions in the Department of Transportation. However, all FTE reductions in the 1999 biennium are assumed to continue for purposes of the calculation.) It should be noted that the calculations do not

EXECUTIVE PAY PLAN

assume any further increase in the 1999 biennium due to the executive's proposed pay plan.

Table 23
Costs of the 1997 Biennium Pay Plan
1997 and 1999 Biennia
in Millions

Funding Source	1997 Biennium	1999 Biennium
General Fund*	\$16.53	\$26.32
Other Funds*	<u>19.12</u>	<u>30.25</u>
Total	<u>\$35.65</u>	<u>\$56.57</u>
<u>Funding Mechanism</u>		
FTE Reductions**	\$16.03	\$17.52
Vacancy Savings	<u>13.48</u>	<u>0.00</u>
Total	<u>\$29.51</u>	<u>\$17.52</u>
Unfunded Pay Plan	(\$6.13)	(\$39.05)
*Approximate funding split in the 1999 biennium, based upon fiscal 1996 funding splits.		
**Approximate retained FTE reductions in the 1999 biennium.		

the grades should primarily be a function of the employee's years of service. Consequently, there is little latitude for managers to determine what compensation an individual employee actually receives. The executive is proposing that an alternate classification and pay system be developed that emphasizes individual skills, competencies, and contributions in addition to the above criteria. According to the executive, "...employee recruitment, selection, evaluation and compensation shall be based, at least in part, on the demonstration of these necessary skills and competencies..." The executive is proposing that pilot projects be undertaken in the 1999 biennium and would present a proposal to the 1999 legislature. No funding is requested for this project.

Details on how the pilot projects will be established or their extent are not available at this time. However, the proposal is the executive's response to several personnel issues discussed during the interim. According to the report of the Joint Interim Subcommittee on State Management Systems (SJR 23), the committee recognized that in the future:

- the state will continue to decentralize human resource decision making;
- state managers will have expanded authority to impact employee status and pay based on individual employee competence;
- state managers will have greater responsibility for management of employees and position budgets;
- there will be increasing pressure to streamline personnel decisions and transactions to meet organizational needs, fill vacant position, change job assignments, authorize pay changes, and calculate pay increases.

Other Personnel Proposals

As stated above, most state employees are on a grid based on a number of grades, with grades equating primarily to a level of education, experience, skill, and ability required. The state grade matrix from which most state employees are paid currently consists of 25 grades. Since establishment of the target market ratio grid by the 1995 legislature, pay within

STRUCTURAL BALANCE

A structural imbalance between revenues and expenditures in the general fund has been the general rule since fiscal 1984. Expenditures have exceeded revenues for six of the last seven years (including fiscal 1997 projections), and for 10 of the last 14 years, as shown in Table 24. During the late 1980's and early 1990's, the legislature utilized a number of one-time sources of money, including over \$100 million in other fund transfers and acceleration of revenue collections, to maintain solvency in the general fund. These revenues were used to fund ongoing expenses of state government and, as a result, exacerbated the imbalance between costs and available revenues. The 1993 legislature

placed a priority on the issue of structural imbalance, and achieved a balance of revenues and expenditures for the 1995 biennium, both in the regular session and again in special session. Yet supplemental requests, including fire suppression costs, were among the reasons that expenditures still exceeded revenues for the biennium. The 1995 legislature approved a budget in which ongoing expenditures exceeded ongoing revenues and, along with supplemental appropriations, expenditures for the 1997 biennium are projected to exceed revenues by over \$40 million, as shown in the table.

Table 24
Revenue and Disbursement History
General Fund & School Equalization Accounts
In Millions

F Y	General Fund		Surplus / Deficit	School Equalization		Surplus / Deficit	GF/SEA		Surplus / Deficit
	Revenue	Disburse.		Revenue	Disburse.		Revenue	Disburse.	
A 84	\$330.305	\$357.387	(\$27.082)	\$242.384	\$261.753	(\$19.369)	\$572.689	\$619.140	(\$46.451)
A 85	364.522	380.359	(15.837)	281.275	271.016	10.259	645.797	651.375	(5.578)
A 86	349.541	366.815	(17.274)	252.899	282.166	(29.267)	602.440	648.981	(46.541)
A 87	346.690	391.325	(44.635)	263.052	283.428	(20.376)	609.742	674.753	(65.011)
A 88	391.152	370.853	20.299	276.216 *	281.886	(5.670)	667.368	652.739	14.629
A 89	411.729	388.270	23.459	275.589 *	279.536	(3.947)	687.318	667.806	19.512
A 90	447.962	432.323	15.639	282.389	287.393	(5.004)	730.351	719.716	10.635
A 91	420.257	457.612	(37.355)	385.031	391.500	(6.469)	805.288	849.112	(43.824)
A 92	487.036	523.072	(36.036)	393.591 *	398.059	(4.468)	880.627	921.131	(40.504)
A 93	539.955	523.553	16.402	412.903	405.067	7.836	952.858	928.620	24.238
A 94	480.021	497.921	(17.900)	411.834	406.388	5.446	891.855	904.309	(12.454)
A 95	646.149	535.461	110.688	289.199 *	409.822	(120.623)	935.348	945.283	(9.935)
A 96	963.193	984.997	(21.804)				963.193	984.997	(21.804)
F 97	982.821	1,002.060	(19.239)				982.821	1,002.060	(19.239)

* Excludes education trust & general fund transfers.

The Executive Budget proposal includes revenue and expenditure estimates that are nearly balanced for the 1999 biennium, although expenditures do exceed revenues. However, when the executive expenditure proposals are compared to total revenue estimates as recommended by the Revenue Oversight Committee, there is a significant shortfall of ongoing revenues to support ongoing

expenditures in the 1999 biennium, creating a structural imbalance. In addition to the ever-present problem of expenditure growth and supplemental requests, there are several proposals in the executive budget that will impact structural balance in future bienniums. They are discussed briefly below.

STRUCTURAL BALANCE

One-Time Revenues

The executive proposal includes one-time revenue sources that will not be available in future biennia, including the one-time transfer of \$20 million from the State Compensation Insurance Fund that effectively pays back a 1990 general fund “loan”. In addition, revenues from the business property tax rate reduction will be less as a result of the progressive reduction in the tax, reducing revenues in the 2001 biennium by \$4 million.

Pay Plan Cost Annualization

The executive pay plan proposal will require an additional \$5.2 to \$6.7 million general fund in the 2001 biennium. The pay plan increases will occur throughout the 1999 biennium, and when the pay plan is annualized for carryforward into the 2001 biennium, there will be a significantly increased cost over the 1999 biennium. Because vacancy savings is being used to fund a portion of the executive pay plan, there will be an additional ongoing cost, as discussed below.

Vacancy Savings

The Executive Budget recommends applying a 3 percent vacancy savings reduction in agency personal services budgets in the 1999 biennium as a means of partially “funding” the 1999 biennium pay plan. The executive proposes to fund a portion of the plan within existing budgets by holding positions vacant. Vacancy savings reductions are only temporary, as existing positions are fully funded in the next biennium. Therefore, although the pay plan may be partially funded “within existing budgets” in the 1999 biennium, the plan will require an additional general fund cost of about \$12.6 million in the 2001 biennium. This is in addition to the added costs of pay plan

annualization discussed above.

Corrections Costs

The Executive Budget includes over \$50 million in increases in the budget for the Department of Corrections, largely to address prison population growth. The plan includes additional state and local facilities to house prisoners. The resultant maintenance cost of facilities and per-day prisoner costs due to increased population will result in another significant increase in the cost of corrections in the next biennium.

Tax Proposals

The executive budget includes proposals for property tax reappraisal relief and utilization of coal tax trust funds. Details regarding these proposals are not available. Depending on how the property tax relief is designed, it could have an impact on other revenue sources as well as public school funding costs that would also have an impact in future biennia. The use of funds from the coal tax trust would also impact the amount of interest income available to the general fund, reducing the amount available in future biennia.

Public School Funding

The increase in average number belonging (ANB) enrollments in a growing population places an upward pressure on the statutorily driven funding formula for public schools. The executive proposal also includes a new initiative to increase the percent of BASE aid to schools by 3.5 percent in fiscal 1999. This proposal will permanently increase the cost increments in future bienniums.

INFLATION/DEFLATION

The Executive Budget proposes that specific operating cost items be inflated or deflated by the inflation factors agreed to in the summer of 1996. The inflation factors utilized are presented in the "Reference" section of this volume.

Inflation factors were applied only to selected expenditure codes, including those for food, medical and pharmacy, energy related items, as well as proprietary items. Proprietary items include spending for mainframe computing, motor pool, postage and mailing, and telephone service. No other operating cost items were adjusted for inflation.

Applying inflation/deflation factors to the selected expenditure items for all funds decreased present law 1999 biennium expenditures by \$1.2 million. While most inflation factors increased spending above fiscal 1996 levels, large reductions in proprietary items, especially those associated with mainframe computing and telephone, reduce

overall projected spending below fiscal 1996 levels.

Applying inflation to selected expenditure categories does not maintain equal buying power for state agencies. If the remaining fiscal 1996 operating cost items had been inflated by the Consumer Price Index (CPI), present law expenditures for the 1999 biennium would have increased by \$62.7 million for total funds.

The statutory definition of "present law adjustments" includes adjustments for inflation. The Executive Budget effectively understates present law by \$62.7 million (compared to CPI) on a statewide basis since it does not apply full inflation to budgets. Therefore, buying power for existing services is not maintained.

Full inflation has not been applied to agency operating costs for several bienniums.

LONG-RANGE PLANNING PROPOSALS

The Governor's request for Long-Range Planning includes a total of \$241.1 million for grants, loans, capital projects, and information technology. The request is summarized in Table 25.

The most significant funding request for Long-Range Planning includes a total of \$160.9 million for projects under the Long-Range Building Program (LRBP). This request, if approved, would represent the second largest program in the state's history. However, the Governor's request for the 1999 biennium represents the largest bonding program ever proposed, for a total of \$67.5 million in projects. Over a term of 20 years, the total cost for this bonding proposal would be in excess of \$103.4 million. The Governor's LRBP request also includes two projects to be funded through a lease/purchase, at an estimated cost of \$32.9 million.

Finally, the Governor's Long-Range Planning package includes a request for \$55.1 million in bonding for information technology (computer hardware, software, and systems development). Of this amount, \$30.5 million worth of bonds are to be retired with general fund monies. These bonds are to be issued for a term of ten years, which would result in a total cost of nearly \$70.0 million, \$38.7 million of which would be financed by the general fund.

Section F, Volume II, includes detailed information regarding each of the programs related to Long-Range Planning.

Table 25
Governor's Budget Request
Long-Range Planning
(In Millions)

Program/Project	Amount	Program Total
<u>Long-Range Building Program</u>		
Projects Funded With Cash/Current Revenues	\$60.548	
Projects Funded With Bonded Debt	67.453	
Lease/Purchase Proposals	<u>32.900</u>	
Subtotal		\$160.901
<u>Information Technology</u>		55.050
<u>Renewable Resource Grant & Loan Program</u>		
Grants	\$2.125	
* Loans - New Projects	<u>1.921</u>	
Subtotal		4.046
<u>Reclamation & Development Grant Program</u>		
Grants		3.000
<u>Treasure State Endowment Program</u>		
Grants	\$9.138	
Loans	<u>1.905</u>	
Subtotal		11.043
<u>Cultural & Aesthetic Grant Program</u>		
Grants	\$0.892	
Capitol Mural Restoration	0.015	
Capitol Stained Glass Restoration	<u>0.095</u>	
Subtotal		1.002
<u>Oil Overcharge Program</u>		1.101
<u>State Building Energy Conservation Program</u>		5.000
Total		<u>\$241.143</u>

* This does not include an additional \$19.7 million in loans that will be reappropriated in HB 8.

HIGHWAYS FINANCE - DECLINING FUND BALANCE

The 1997 legislature is faced with a declining fund balance in the Highway Special Revenue Account (HSRA) which is projected to result in a negative cash balance of \$11.1 million in the 2001 biennium. Current projections indicate a negative cash flow of more than \$30 million in the 1999 biennium with a rapidly deteriorating cash balance in future biennia.

Revenues to the account, which are primarily comprised of fuel tax collections (both gasoline and diesel fuel) and GVW fees, are expected to increase at an annual growth rate of 1.0 percent. However, the relatively flat growth in revenues have not kept pace with rising expenditure levels and associated inflationary increases.

In the 1999 biennium, expenditures from the HSRA account exceed projected revenues by \$16.0 million in fiscal 1998 and by \$16.8 million in fiscal 1999. Deficit spending in the 1999 biennium and beyond is a key contributor to the projected decline in fund balance. Driving increased expenditure levels is an increased state-funded construction program (100 percent state-funded), known as the Reconstruction Trust Fund program (RTF). The executive is requesting spending authority of \$74 million for this program in the 1999 biennium.

In previous biennia, the Department of Transportation (MDT) has indicated that a minimum working cash balance of \$20 million was necessary to meet highways financing needs. With the HSRA cash balance declining to \$5.6 million by the end of fiscal 1999, there is concern that department operations could be negatively impacted. The department is currently investigating the alternative of using short-term bonds to finance certain transportation projects. The executive is also proposing that HSRA funding of the Department of Justice Motor Vehicle Division be reduced by \$500,000 each fiscal year beginning in fiscal 1998 (with a corollary increase in general fund).

The Executive Budget provides no intermediate or long-term strategies to reverse the negative cash flow and decline in HSRA fund balance and has no immediate plans to promote legislation which would increase fuel taxes. However, without an increase in revenues or a decrease in planned expenditures, the Highway Special Revenue Account fund balance will become insolvent in fiscal year 2000. For a detailed discussion of the highways account, see the discussion in the agency narrative in Volume I, Section A.

STATE COMPENSATION INSURANCE FUND

The situation of the Montana workers' compensation system presented a major challenge to legislators during the early 1990s. During the 1990 special session, legislation was passed establishing separate funding and accounts for claims of injuries resulting from accidents occurring before July 1, 1990 (Old Fund), and claims occurring on or after July 1, 1990 (New Fund). The Old Fund is funded by the Old Fund Liability Tax (OFLT), enacted in the 1993 legislative session and administered by the Department of Revenue. The OFLT rates are established at 0.50 percent of payroll for employers, 0.20 percent of salary and wages for employees, and 0.20 percent on the profit of self-employed individuals.

Due to these and other significant legislative changes, the State Fund cut premium rates charged to New Fund customers by 18 percent in fiscal 1996, representing the first rate decrease in 16 years. Additional premium reductions have been and will be made, in response to the improved solvency of the State Fund's fiscal situation. In addition, the State Fund Board of Directors (Board) voted in September 1996 to declare a dividend payable to the Old Fund of up to \$109.0 million from excess surplus funds totaling \$231.0 million. This dividend was used to retire Old Fund bond debt. In addition to legislative reform, the State Fund's

fiscal success is due in large part to: favorable loss trending, internal operational improvements, and cost containment efforts.

In response to the State Fund's positive financial situation, the Governor's Budget Director asked the Board to return \$20.0 million to the general fund that was appropriated to the State Fund in fiscal 1990. Although the Board has agreed to repay the money, the State Fund has indicated their ability to make the \$20.0 million payment is dependent on a number of contingencies, including the merger of the New Fund and the Old Fund. A proposal to merge the two funds is included in a piece of legislation that will be introduced by request the Governor. This legislation will also include a number of other changes related to State Fund operations, including the elimination of the Old Fund Liability Tax sometime between the end of calendar 1998 and calendar 1999.

A detailed discussion of the State Fund budget and the contingencies tied to repayment of the \$20.0 million can be found in Section G of Volume II, page G-139.

RESOURCE INDEMNITY TRUST

Resource Indemnity Trust (RIT) funds are a major source of funding for several natural resource programs. In addition to the \$5.725 million appropriated for the grants and other specific programs, approximately \$19.5 million was appropriated from accounts primarily funded with RIT funds for various functions in the 1997 biennium. In the 1999 biennium, the executive, in addition to the grants, requests appropriation authority of \$18.1 million from these accounts.

The RIT trust is a constitutional trust that must remain inviolate until the balance in the trust reaches \$100 million. Revenue to the trust is statutorily defined, and is derived from: 1) 45.9 percent of the Resource and Ground Water Assessment (RIGWA) tax. The remaining proceeds are allocated to two of the accounts discussed below, and to the ground water assessment account to fund ground water assessment functions in the Bureau of Mines; 2) a portion of the metalliferous mine tax; and 3) portions of oil and natural gas taxes. When the trust reaches \$100 million, which is estimated to occur sometime in the 2001 biennium, statute requires that proceeds from the RIGWA tax must be expended.

Interest from the trust, which is expected to total about \$15.9 million in the 1999 biennium, is currently allocated to several sources. A portion of the interest, totaling a maximum of \$5.725 million over the biennium, is appropriated either statutorily or directly by the legislature to five different uses, including \$5.0 million in renewable resource and reclamation and development grants. Once these initial uses are funded, the remaining interest is allocated on a statutorily dictated percentage basis to four different accounts used to fund various natural resource functions of state government:

- the renewable resource account (RDG), which primarily funds various programs in the Department of Natural Resources and Conservation (DNRC) and the Judiciary;
- the reclamation and development (RRDL) account, which primarily funds programs in DNRC and the Department of Environmental Quality (DEQ);

- the hazardous waste/CERCLA account, which funds remediation in DEQ; and
- the environmental quality protection fund (EQPF), which funds remediation in DEQ.

All accounts receive various other revenue sources. The RDG and RRDL also receive a total of 40 percent of the proceeds of the RIGWA tax. A complete listing of programs funded from the various accounts, other revenues, and revenues to the trust, is included in the narrative of DNRC in the Agency Budgets and Analysis section (Volume I) of the Executive Budget/LFD Budget Analysis.

Ongoing revenues to the accounts are not sufficient to fund ongoing operations. In the 1997 biennium, state agency operations partially supported by two of the accounts required additional general fund of about \$4.5 million to maintain operations. In addition, the hazardous waste /CERCLA account was projected to be in a deficit situation in the 1999 biennium at current levels of operation. The executive maintains the general fund subsidy provided by the 1995 legislature. In the 1999 biennium, based on assumptions adopted by the Revenue Oversight Committee (ROC) in December, 1996, the executive over-appropriates RIT funds in four accounts: the RDG, RRDL, the EQPF, and ground water assessment. Therefore, the legislature must either: 1) reduce appropriations from the recommended levels for one or more programs funded in whole or in part from those accounts; 2) reduce the \$5.0 million of interest allocated to grants prior to allocation to the accounts to increase revenues to the accounts; 3) increase revenues to the accounts via some other method, such as increased diversion of tax proceeds from the trust; and/or 4) provide an additional subsidy to those operations funded in whole or in part from the accounts.

The Legislative Finance Committee (LFC), after hearing a report from a subcommittee of the LFC and the Environmental Quality Council (EQC) assigned to provide options for action, is sponsoring a bill that calls for an interim study of the RIT. The legislation would call for a study that:

RESOURCE INDEMNITY TRUST

- examines the trust and its long-term aspects within historical and constitutional contexts;

- explores methods of preserving the value and purchasing power of the trust, and the ability of the trust to indemnify the state against future costs of mining reclamation;

- investigates the projects and programs on which resource indemnity trust tax revenue has been spent

and for which future revenue may be spend, including identifying specific options for prioritizing the use of RIT interest and proceeds;

- explores options concerning tax revenue once the corpus of the trust reaches \$100 million; and

- explores whether either trust interest or tax proceeds should continue to be earmarked.



OTHER FISCAL ISSUES

INTRODUCTION TO OTHER FISCAL ISSUES

This section discusses several issues not directly related to the Executive Budget, but that will potentially have an impact on the budget passed by the legislature, and about which the legislature should be aware. The section also includes the executive's unified prevention budget. HB 2 requires that this budget be included in the Governor's budget. The following provides an index to these issues.

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Senate Bill 378	Page 79
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PERFORMANCE BASED BUDGETS

Performance based budgeting is a budgeting method that relates expenditures and revenues to workload. It reflects a management orientation to efficiency in production. Performance budgets feature each program or sub-program with its own unit cost and goals. Goals and activities are defined to direct the program, and defined performance measures are used to evaluate efficiency and economy.

Under authorization by the 1993 legislature, the Governor's Office of Budget and Program Planning office submitted performance based budgets for three programs to the 1995 legislature. These programs were: 1) the Natural Resource Information Service (NRIS) in the Montana State Library; 2) the Air National Guard Program in the Department of Military Affairs; and 3) the Mail and Distribution Bureau of the Department of Administration. The legislature established these program budgets as biennial appropriations. In addition, funds were not appropriated within the standard categories of personal services, operating costs, and the like. Instead, the funds were appropriated in a "lump-sum". The legislature established performance targets the programs were expected to meet and maintain with the appropriated funds. Consequently, it was left to the program manager's discretion to allocate the funds, with the ultimate goal of reaching the performance targets.

The 1995 legislature encouraged the Office of Budget and Program Planning (OBPP) in language in HB 2 to submit the budgets of additional programs as performance based budgets in the 1999 biennium Executive Budget. The executive is recommending that the programs and sub-programs listed in Table 26 be performance based budgeted in the 1999 biennium.

Each PBB program is included in the appropriate agency narrative in the "Agency Budgets and Analysis" section of the Executive Budget/LFD Budget Analysis. Each narrative follows roughly the same format. The broad mission of the program is stated. Each goal and/or objective is then listed, along with the relevant performance measures.

LFD issues with the submissions and other discussions relevant to each are included in the individual agency writeups in the "Agency Budgets and Analysis" sections.

Table 26
Programs Proposed for New/Continued Performance Based Budgeting
1999 Biennium

Subcommittee/Agency		Program/Function
<u>Continued PBB</u>		
General Government	Administration	Central Mail
Institutions & Public Safety	Military Affairs	Air Guard
Education	State Library	Natural Resource Information System
<u>New PBB</u>		
General Government	Governor's Office	Citizen's Advocate
	Secretary of State	Elections/Legislative Activity
	Transportation	State Motor Pool
	Revenue	Corporation and Natural Resource Tax
Health & Human Services	PHHS	Child Support Enforcement
		Montana Chemical Dependency Center
Natural Resources & Commerce	Fish, Wildlife, Parks	Law Enforcement
	DNRC	Nursery
	Commerce	Weights and Measures
Institutions & Public Safety	Justice	Motor Vehicle Division
	Labor and Industry	Labor Standards Bureau
		Human Rights Commission
Education	OPI	Improving Montana Schools

Each submission is unique, owing to the unique nature of the functions performed and results expected. Consequently, there is also a wide range in the degree to which the submissions appear to meet many of the requirements for the provision of information with which the legislature can make informed budgeting decisions.

PBB Program Evaluations

The following are several questions the PBB submissions should address and which the legislature may wish to use as guides for evaluating the submissions.

1) Do the submissions link the goals and performance measures to a budget? One of the main goals of PBB is to link performance measures and goals to the budget. Consequently, the funding necessary to achieve the goals and objectives should be a part of the submission. In this way, the legislature can determine the impact of changes in the budget on the ability of the program to meet its goals. However, with the exception of the Law Enforcement Division in the Department of Fish, Wildlife, and Parks, none of the submissions attempts to link these goals or

PERFORMANCE BASED BUDGETS

performance measures to the budget. Consequently, the legislature has no clear way of determining the impact on achievement of goals and objectives of a change in the appropriation from the executive request.

2) Do the goals adequately express the purpose for the program's existence and what the program attempts to accomplish? Are these the legislature's goals? Does the legislature need additional detailed goals on which to base funding decisions?

3) Are the performance measures quantifiable and measurable? In many instances, the performance measures are qualitative, meaning success in meeting the performance standards cannot be determined.

4) Is there a way for the legislature to gauge the appropriateness of the performance measure or to track progress over time? Many of the submissions do not provide the historical information necessary for the

legislature to determine whether the programs will attempt to increase, maintain, or reduce performance standards.

5) Do the performance standards measure achievement of goals, or are they ends in themselves? For example: one measurement proposed by a PBB program is that 11 programs will be maintained. However, the purpose of providing programs is to meet another objective. This measurement goal assumes that maintenance of the programs should be an end in and of itself.

Finally, the legislature may wish to consider the following when determining whether programs will continue to be funded with PBB and/or whether PBB will expand: how will the 1999 legislature determine the budget changes necessary if performance measures are not met or if they exceed expectations?

BUDGET COMPARISONS METHODOLOGY

Background/Purpose

The legislature has traditionally used budget comparisons as a tool to assess spending trends and growth patterns in the state budget. In recent years, as expenditure growth has exceeded revenue growth, it has been a particularly valued tool.

A great deal of interest, confusion, and controversy has developed in recent years over the size of the state budget and methods of comparison. The state budget is complex, and the methods used to compute the comparisons can vary considerably.

In view of the confusion over estimates, the Legislative Finance Committee (LFC) established a subcommittee on budget comparisons to develop a comparison methodology. The subcommittee worked with representatives of the Legislative Fiscal Division and the Office of Budget and Program Planning in developing its recommendation. The recommendation was approved by the LFC at its June 1996 meeting.

The purpose of this report is to present to the legislature the recommendations of the LFC for a biennial budget comparison methodology. This methodology is intended for those comparisons that are made before, during, and immediately following legislative sessions to measure budget performance and growth. The major tenets of the recommendation include:

- 1) The measure of budget performance will be total state expenditures of funds (projected) obtained from taxes, licenses, and certain fees. This includes federal funds.
- 2) The unit of measure for the comparisons will be actual expenditures in the first year plus appropriations in the second year of the current biennium, compared to appropriations in the next biennium.
- 3) The comparisons must be fair and balanced. That is, the same attributes are to be included on both sides of the comparison, and to be calculated

using like methods.

4) The Legislative Fiscal Analyst and the Governor's Budget Director will work together to reach agreement on estimates to be included in the projections. Where there are unreconcilable differences, the LFD is to explain them as part of the budget analysis.

5) The comparison methodology should be placed in statute, with the requirement that both the LFD and the executive use the methodology for budget comparisons. This is to ensure consistency of application and avoid manipulation of comparisons.

An LFC committee bill has been drafted and will be introduced to the 1997 legislature to make the budget comparison methodology a statutory requirement of budget submission, both by the LFD and the executive. Further, the LFC directed the LFD to use the approved methodology in preparing the 1999 biennium budget analysis, and requested voluntary compliance from the executive. The LFD budget comparisons are presented on pages 20 and 21 of this volume, and were prepared using the prescribed methodology.

The LFC recommendations are listed below. The full June 1996 report of the LFC subcommittee recommendations approved by the LFC is available from the Legislative Fiscal Division.

Legislative Finance Committee Recommendations

Methodology Procedure

***Recommendation 1:** The measure of all budget performance will be the total expenditure of state resources that reflect the cost of general government operations funded by taxpayer taxes, licenses, and fees.*

***Recommendation 2:** Include all appropriations and projected expenditures from the state fund structure. Certain exceptions must be made to eliminate duplicate costs, non-operational costs, transfers, enterprise operations, and fiduciary funds.*

BUDGET COMPARISONS METHODOLOGY

The following components (fund and appropriation authorization type) should be included in the budget comparisons:

*General fund, state special, and federal revenue
Proprietary funds that require an appropriation
Cash appropriations for the Long Range Building Program
Agency Funds - Tax Distributions to Local Governments*

The following components should be excluded from the comparisons for the reasons shown:

Eliminate Double Counting:

*Debt Service Funds
Capital Project Funds (except cash appropriations)
Internal Service Funds (Proprietary)
Administrative/Agency Transfer Appropriations*

Eliminate Enterprise/Corporate Components:

*Enterprise Funds (Proprietary)
University Funds - Unrestricted
University Funds - Other*

Eliminate Fiduciary Funds:

*Agency Funds (except tax distributions)
Expendable Trust Funds
Non-expendable Trust Funds
Pension Trust Funds*

Non-Budgeted Items:

*Non-cash accounting entries
Private Funds (state special revenue)*

first year of the current biennium plus appropriations in the second year of the current biennium will be compared to appropriations in the next biennium.

Recommendation 4: *The Legislative Fiscal Analyst is to work with the Governor's Budget Director to reach agreement on measurement standards. If there are unreconcilable differences in estimates, the LFD is to explain them as part of the independent analysis of the Executive Budget. The methodology used for the estimates should be the same.*

Recommendation 5: *The same attributes are to be included on both sides of the comparison, and are to be calculated using like methods. For those items that may not be appropriated at the beginning of the biennium (e.g., budget amendments, supplementals, emergency appropriations), they are to be included in the comparison, but are to be segregated and listed "below the line" as "non-comparable".*

Implementation

Recommendation 6: *The LFD is directed to draft an LFC committee bill for the 1997 session that would make the recommended budget comparison method a statutory requirement of budget submission, both by the LFD and the Executive.*

Recommendation 7: *For the 1997 legislative session, the LFC directs the LFD to use the prescribed budget comparison methodology. Further, the executive is requested to voluntarily comply with the methodology.*

Recommendation 8: *The LFC requests that the Executive include a specific recommendation for all statutory appropriations in the Executive Budget submission.*

Recommendation 3: *Actual expenditures in the*

COMBINED COAL SEVERANCE TAX ACCOUNT

The 1995 legislature passed SB 83 which, among other things, combined five allocations of the coal severance tax (totaling 8.36 percent) into one 8.36 percent allocation and eliminated the five separate accounts. The revenue from this single allocation is now deposited into one account from which the legislature provides appropriations for the five uses. Consequently, each of the five uses may receive more or less money than the prior statutory allocations. Table 27 shows these uses and the amounts requested by the executive for each. The executive is requesting \$3.9 million for the 1999 biennium, or \$2.6 million less than Revenue Oversight Committee estimates of total revenue available. This reduction is primarily due to the executive request for the Coal Board, which is significantly less than the prior allocation. In the past, the Coal Board received an allocation of nearly \$3.0 million, most of which was used for grants. The executive is requesting \$1.1 million for this function in the 1999 biennium. Partially offsetting this decrease is a requested 712 percent increase for conservation districts over the prior allocation. By statute, any cash balance in the account at fiscal year end is deposited in the general fund.

The five uses involve four departments and two appropriations subcommittees (Natural Resources and Commerce, and Education). The two subcommittees will have to coordinate their decisions to establish priorities among the five uses and appropriate available funding accordingly. The legislature may appropriate the full amount of expected receipts or less. If the legislature decides that general fund programs have higher priority than the five designated uses, less could be appropriated. The general fund would receive the difference. If the legislature feels the current allocation of 8.36 percent provides too much revenue for the five statutory uses, statute could be changed to decrease the percentage allocation. The revenue would go to the general fund because current statute directs all unallocated amounts to the general fund. If the legislature fully funds the executive request, excess revenue of \$2.6 million will be deposited to the general fund.

Table 27
Combined Coal Tax Account
8.36% of Coal Severance Taxes

	Fiscal 1998	Fiscal 1999
<u>ROC Estimates</u>	\$3,246,272	\$3,195,443
<u>Uses</u>	<u>Executive Request</u>	
Conservation Districts (DNRC)	\$686,140	\$682,209
Local Impacts-Coal Bd. (Commerce)	551,603	544,750
Growth Through Agriculture (Agriculture)	320,134	316,643
County Land Pplanning (Commerce)	201,761	200,456
Library Services (State Library)	199,301	166,301
	<u>\$1,958,939</u>	<u>\$1,910,359</u>
<u>Miniumum Cash Balance to General Fund</u>	\$1,287,333	\$1,285,084

SB 378 INTERIM STUDY

Purpose

SB 378 (enacted by the 1993 legislature) requires the Legislative Finance Committee (LFC) to biennially review in the interim each dedicated revenue provision to ensure they:

- are based on sound principles of revenue dedication;
- reflect legislative priorities for state spending; and
- are terminated when no longer needed.

The LFC is also directed to review all statutory appropriations to determine if the appropriation should be made by a legislative appropriation, with emphasis on those that fund administrative costs. Specific evaluation criteria to be used in the review are provided in statute. The law directs the LFC to establish procedures that facilitate the review and evaluation of the provisions. The committee's findings are to be reported to the legislature, including the purpose, funding source, activity funded, number of personnel funded, and fund balance of each dedicated revenue provision. This detailed report for the 1997 legislature is available from the Legislative Fiscal Division (LFD). The following provides a summary of the review and the committee's recommendations.

Summary

The LFC reviewed 256 dedicated revenue provisions and 98 statutory appropriations. To facilitate the review of state special revenue accounts, the LFD and the Department of Administration (DofA) cooperated and surveyed the administering agency of each state special revenue account. The information was entered in a computer database and accounts were classified into 17 categories. Of the 364 state special revenue accounts reviewed, the committee determined that 5 were no longer used and could be eliminated.

SB 378 allows certain categories of accounts to be exempt from future review. In the 1995 biennium committee review

of all dedicated revenue provisions, the committee recognized that, due to constitutional restrictions or the special nature of certain funding sources, some state special revenue accounts clearly should not and need not be de-earmarked. As a result, the committee determined that 98 accounts could be exempt from future reviews of dedicated revenue provisions. The 1997 biennium interim committee expanded the list of exempt accounts to include 10 accounts that receive private funds or donations, since these funds cannot be de-earmarked by the legislature.

The committee approached its work on SB 378 with a philosophy that the review of state special revenue funds should better enable the legislature to include these funding sources in its review and prioritization of program funding. The committee was sensitive to the fact that some programs funded by these sources may not receive as close legislative scrutiny as programs funded by general fund, and that the legislature's flexibility to allocate funding may be limited. The committee recognized that some funding sources currently deposited to state special revenue accounts are general in nature and are not required by law to fund specific programs. These funds are the current candidates for possible de-earmarking to the general fund so that the funds could be prioritized by the legislature along with general fund used to fund other programs. The committee concentrated on three sources of revenue that could be considered general in nature and not collected for a specific use. These sources are: 1) taxes; 2) fines; and 3) investment earnings.

Legislation will be introduced to the 1997 legislature to implement the recommendations of the LFC. The following narrative summarizes this legislation.

Proposed Legislation

To implement the LFC's recommendations for de-earmarking, the following statutory amendments are proposed:

State Special Revenue

1. De-Earmark Certain Accounts - The LFC recommends that the following accounts be de-

SB 378 INTERIM STUDY

earmarked and revenue deposited to the general fund.

- a. Cigarette Tax (16-11-119, MCA) - Under current law, cigarette tax revenue is allocated for four purposes: 1) to PHHS for the operation of the state veterans' nursing homes; 2) collection costs of the Department of Revenue; 3) the long-range building debt service account; and 4) the long-range building program account. The recommendation will de-earmark all but the 17.83 percent allocated to the long-range building program account. The de-earmarking of the money from the debt service account is not a material change since the money is now transferred to the general fund after it is deposited to the debt service account. Since there are no longer any outstanding bonds that require the revenue to be pledged, the current earmarking is out-dated, unnecessary, and complicates state accounting.
- b. Lodging Facility Use Tax Revenue (15-65-121, MCA) - All revenue from this tax would be deposited in the general fund for the legislature to appropriate for any use. Programs that are currently statutorily appropriated from this tax revenue are: 1) Department of Commerce, regional non-profit tourism corporations; 2) Department of Fish, Wildlife, and Parks (FWP); 3) Commissioner of Higher Education; and 4) Montana Historical Society. The money would no longer be statutorily appropriated. In addition, the Department of Revenue receives an appropriation in HB 2 to pay collection and disbursement costs. Money for this purpose is also de-earmarked.
- c. Income, Corporation, and Tobacco Taxes (15-1-501, MCA) - 8.7 percent of the income tax, 10.5 percent of the corporation tax, and 95 percent of tobacco taxes are

currently earmarked to the long-range building debt service account. The de-earmarking is not a material change since the money is now transferred to the general fund after it is deposited to the debt service account. Since there are no longer any outstanding bonds that require the revenue to be pledged, the current earmarking is out-dated, unnecessary, and complicates state accounting. Also recommended for de-earmarking is revenue from the income tax check-offs used by the Department of Revenue to administer the programs (15-30-153, MCA).

- d. Payroll Tax (39-71-2503 & 2504, MCA) - Although the Department of Revenue currently receives an appropriation of payroll tax revenue to collect the tax, statute does not allow this use. An amendment is proposed to allocate 1.20 percent of the tax (the amount spent by the department in fiscal 1996) to the general fund. General fund would then be appropriated to the department for its collection costs.
- e. 911 Emergency Telephone Tax - An amount up to 1 percent of the tax is currently allocated to the Department of Revenue for its collection costs. The Department of Administration receives up to 7 percent of the tax to administer the cost of the 911 program. An amendment is proposed to allocate 6.91 percent of the tax (the amount that the two departments spent in fiscal 1996) to the general fund. General fund would then be appropriated to the departments for their costs.
- f. Handicapped Telecommunication Tax (53-19-311, MCA) - A monthly charge of \$0.10 is assessed on each telephone line to provide specialized telecommunications equipment and services to handicapped

SB 378 INTERIM STUDY

persons. Under the recommendation, the revenue from the charge would be deposited to the general fund and general fund appropriations provided for the same purpose.

- g. Fines - The following five sources of revenue from fines are recommended for de-earmarking: 1) recoveries in antitrust or consumer protection cases (2-15-501, MCA); 2) violations of the streamside management zones statutes (77-5-305, MCA); 3) civil penalties paid as the result of housing discrimination (49-2-510, MCA); 4) earned interest from the patient protection account and penalties for violations of laws pertaining to health care facilities (50-5-232, MCA); and 5) violations of mega-landfill statutes (75-10-954, MCA).

- h. Miscellaneous State Special Revenue - Other state special revenues recommended for de-earmarking include:

- receipts from the sale of education resources to school districts (20-3-108, MCA);
- money from the sale of assets or from the lease of railroad facilities owned by the state (60-11-123, MCA);
- fees or forfeitures collected in the process of selling cabin sites on state land (77-2-323 & 328, MCA); and
- any money from the abolished public campaign fund tax check-off that continues to be deposited in the public campaign fund.

2. Motor Vehicle Tax - The committee recommends that this tax be earmarked to a state special revenue account. Currently, 7 percent of the money is deposited to the general fund and earmarked for the district court criminal reimbursement program (3-5-901, MCA). The committee felt that, since the money was earmarked for a specific purpose, it should be accounted for in the state special revenue fund rather than the general fund. The committee expressed its desire that this revenue and program be included in the next interim study.

3. In three instances, duplicate accounts are being used for the same purposes. The committee recommends that the following accounts be combined: 1) VA Plot Allowance account, Vets License Plate Fee account, and the VA Nonbudgeted Donations account; 2) Percent Art/Maintenance account and the Percent Art/Admin & Acquisitions account; and 3) Underinsured Employers' Fund and the Uninsured Employers' Fund (39-71-533, MCA).

Statutory Appropriations

1. Eliminate 21 statutory appropriations. The following statutory appropriations are recommended for elimination because:

- they involve tax revenue that should be reviewed and appropriated by the legislature each biennium;
- the use is no longer needed;
- the authority already exists elsewhere; or
- the money can be expended without an appropriation by the legislature.

An appropriation is not needed:

- to transfer money from one account in the state treasury to another;
- for refunds; or

SB 378 INTERIM STUDY

- to spend private funds or donations.

It is the intent of the committee that if any of the appropriations needed for the expenditure of funds are eliminated, funding for the programs should be appropriated in the general appropriations act.

- a. 911 Taxes (10-4-301, MCA) - Distribution of the 911 tax proceeds to cities and counties by the DofA. In fiscal 1996, \$1,551,894 was distributed.

- b. Lodging Facility Use Tax (15-65-121, MCA) - Statutory appropriations are currently provided to the:

- Department of Commerce for tourism promotion and promotion of the state as a location for the production of motion pictures and television commercials;
- regional nonprofit tourism corporations;
- Department of Fish, Wildlife and Parks for maintenance of facilities in state parks;
- Montana University System for a travel research program; and
- Montana Historical Society to install or maintain roadside signs and historic sites.

- c. Payment for actuarial valuations of police retirement funds in Cut Bank and Dillon (19-19-205, MCA)

- d. Use No Longer Needed - The committee is recommending the elimination of the following statutory appropriations because they are no longer needed:

- payment of general fund to municipalities (20-9-361, MCA). According to Office of Public Instruction staff, general fund payments are not needed for municipalities with an urban renewal area that have adopted a tax increment financing provision;

- payment of Board of Investment's costs to repair property owned as an investment; and

- payment for debt service on FWP bonds that have already been paid off.

- e. The Authority Already Exists - Since statute already provides a statutory appropriation for debt service payments, the statutory appropriations for debt service on the following are not needed: 1) Montana Developmental Center Facility (90-7-220, MCA); 2) the Montana State Hospital/Mental Health Center (90-7-221, MCA); 3) wastewater treatment projects (75-5-1108, MCA); and 4) public water system projects (75-6-214, MCA). Duplicate authority also exists to spend bond forfeitures to plug abandoned wells (82-11-136, MCA).

- f. Refunds - By statute, refunds do not need an appropriation. The statutory appropriation to refund money of a validated depositor or creditor of a liquidated bank is not needed (32-1-537, MCA).

- g. Transfers - The committee recommends the elimination of four statutory appropriations that transfer money between accounts in the treasury.

SB 378 INTERIM STUDY

- h. Private Funds - Since private funds and donations do not need to be appropriated by the legislature in order to be spent, the committee recommends the elimination of five of these statutory appropriations.
- 2. Combine Statutory Appropriations - The committee recommends that, in the following two instances, statutory appropriations be combined: 1) distribution of 30 percent of liquor taxes to counties, distribution of 4.5 percent of liquor taxes to counties, and distribution to counties of liquor tax collections from sales in licensees' businesses (16-1-404(2), MCA); and 2) replacement of damaged or destroyed buildings from insurance proceeds, and replacement of destroyed or damaged buildings (2-17-105(3), MCA).
- 3. Statutory Appropriation Clean-up - The committee recommends that the statutes involving the beer tax and statutory appropriation of the tax proceeds be consolidated for clarity (16-1-410, MCA and 16-1-406, MCA).
- 4. Amend SB 378 statutes by adding guidelines for the review and establishment of statutory appropriations. Although statute enacted by SB 378 refers to criteria concerning statutory appropriations, none were included. The amendments would put these guidelines in statute and direct that they be considered by the legislature when reviewing and establishing statutory appropriations. The amendments also provide that the Office of Budget and Program Planning prepare a fiscal note for each piece of legislation that proposes to create or amend statutory appropriations.

YEAR 2000 FISCAL IMPACT

In a report presented to the Legislative Finance Committee on September 19, 1996, LFD staff presented a report regarding the potential fiscal impact to the state due to the Year 2000 computer problem. Briefly described, the Year 2000 date transition problem is a global computer problem faced by public and private sector organizations alike. The basis of the problem is that most computers and computer systems applications have been embedded with a standard six-digit date format (i.e. MM/DD/YY), which assumes a century date of 1900. Thus, affected computers and systems applications will not recognize the year 2000, which means that a portion of the state's computer systems will potentially malfunction in the year 2000, resulting in negative operational impacts. The LFD report concluded that although the problem may appear simple to fix, the reality is that conversion to Year 2000 compliant systems will entail a complex process and require a significant investment of time and money to correct. Based on the LFD's survey of states in the region, Montana could incur Year 2000 conversion costs ranging between \$1.0 and \$30 million. Conversion costs to the State of Montana have not been quantified, and yet must be budgeted for in the 1999 biennium.

With a target completion date of the end of fiscal 1998, the policy and fiscal issues associated with Year 2000 conversion will need to be addressed by the 1997 legislature. The Information Services Division (ISD) of the Department of Administration is coordinating the statewide Year 2000 conversion effort. However, an agency-wide assessment of the costs to reprogram state computers has not been completed at the time of the writing of this report. ISD has requested \$616,000 in its 1999 biennium budget for associated costs. However, this amount is more a contingency and is not based upon a detailed study of need. Although the state's costs of conversion have not been delineated, ISD has indicated that a large portion of conversion costs are included in current level systems upgrades in agency budgets. The department has also indicated that the information technology bonding proposal, totaling \$55 million, would incorporate Year 2000 systems upgrades. However, it is not entirely known what the costs would be if some or all of these proposals are not funded. For a further discussion of these proposals, please see the 'IT Bond Proposal' narrative in the "Agency Budgets and Analysis" section.

FUND BALANCE ADEQUACY

Although the state's financial position is brighter than in recent biennia, economic growth in Montana is expected to remain moderate. In addition, the state's fiscal stability is not immune to economic and political changes, both globally and nationally. The state must also compete with a multitude of demands for scarce federal tax dollars, resulting in continuous uncertainty regarding future levels of federal funding. Moreover, the budgeting process is vulnerable to court decisions, such as the state encountered with education funding. Consequently, attaining general fund budget stability requires more than simply setting appropriations equal to anticipated revenues, with a positive ending fund balance serving as a safety net. The **adequacy** of the state's fund balance can signify the difference between whether or not the state is forced to confront the unpleasant consequences of fiscal *instability*.

Montanans are all too familiar with the consequences of general fund fund balance inadequacy. For 9 of the past 13 fiscal years, the state has experienced a deficit between revenues and disbursements for the combined general fund/school equalization account (SEA). Much of the increase in disbursements is a result of natural growth in expenditures due to inflation and/or caseload and enrollment increases or to spending supplementals, such as for fire suppression or for housing prisoners out-of-state. However, revenue growth in the state does not always keep pace with expenditure growth.

Recognizing that budgetary imbalances occur, the state can either take a reactive or proactive approach. During the 1993 and 1995 biennia, the state held three special legislative sessions to deal with budget shortfalls. Although special sessions allow lawmakers the ability to address both revenues and expenditures, special sessions can cost the taxpayers as much as \$45,000 per day. The need for special sessions is also closely scrutinized by national agencies who rate the state's debt. Rating agencies also use a state's general fund balance as a percent of revenues as one of the key financial indicators for credit analysis.

Also from a reactive stance, budgetary fluctuation can be temporarily resolved through spending reductions. In accordance with 17-7-140, MCA, the Governor can authorize spending reductions: "...in an amount that ensures

that the projected ending general fund balance for the biennium will be at least 1 percent of all general fund appropriations during the biennium." The 1995 legislature adjourned with a projected ending fund balance for the general fund of \$22.0 million for both fiscal 1996 and fiscal 1997. A projected ending fund balance of \$22.0 million is a mere 1.1 percent of total expenditures for the biennium. Consequently, based on 17-7-140, MCA, additional general fund expenditures of 0.1 percent, or only \$2.0 million -- assuming revenues achieve the level projected -- would result in mandatory reductions in spending by the Governor.

Essentially, the executive branch assumes control of the budget decision-making process by implementing spending reductions. Although implementation of spending reductions frees the state from the cost and disruption of a special session, they only allow budgetary imbalances to be addressed from one side of the equation -- expenditures. Several other inherent disadvantages include:

- Approximately one-half of general fund appropriations are not bound to the statutory budget reduction process. This reduces flexibility and imposes a greater burden for absorbing necessary cuts by remaining programs.
- Because the statute allows spending cuts up to 10 percent during a biennium, it may result in reductions so significant that legislative priorities get lost in the process.
- Reductions in agency budgets may result in disruption of the delivery of services to Montana citizens, perhaps due to program elimination or a reduction in FTE.
- Short-term reductions in spending could have long-term impacts on policy and funding, especially if federal funding is impacted.

Because of the cost and disadvantages of taking a reactive approach to budget imbalances, the more optimal method is to approach them proactively through provision of adequate fund balance reserves. National fiscal experts such as the National Conference of State Legislatures (NCSL)

FUND BALANCE ADEQUACY

recommend a reserve fund balance of 3 to 5 percent of total appropriations or revenues. Because Montana's budget is implemented on a **biennial** basis -- resulting in considerably more risk than an annual budgeting process -- the 3 to 5 percent should be applied to biennial totals. At a minimum, the budget process should include a general fund ending fund balance of 2.5 percent of total biennial appropriations or revenues. For Montana, with a total general fund budget of \$2.0 billion, this equates to a \$50.0 million ending fund balance.

The provision of an adequate general fund balance is

essential to achieving a sound financial foundation. The level of fund balance reserves must be sufficient to offset the volatility of revenues and the potential for unforeseen expenditure increases.

The legislature may wish to consider whether the traditional \$20-25 million targeted ending fund balance is sufficient to ensure budget stability. A detailed analysis of this issue is provided in a September, 1996, LFD report "Budget Stability: Rainy Day Funds and Fund Balance Reserves", available in room 105 of the State Capitol.

FEDERAL WELFARE REFORM

The Department of Public Health and Human Services is in the midst of adapting the state's welfare reform project to the recently-enacted federal welfare reform law. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 repeals the Aid to Families with Dependent Children (AFDC) entitlement program and replaces it with a block grant of a fixed amount through federal fiscal year 2002. This block grant, called Temporary Assistance to Needy Families (TANF), requires a state maintenance of effort rather than matching funds that were required under the repealed AFDC program. Child care funding is also changed by the new federal welfare reform law. Funding formerly provided under Title IV-A of the Social Security Act and the Child Care Development Block Grant will be consolidated into a Child Care and

Development Fund. Portions of the child care grant require a state maintenance of effort and a state match.

The Executive Budget does not address federal welfare reform. The anticipated amount of the TANF block grant is significantly greater than the TANF-related expenditures (federal portion) contained in the Executive Budget. The legislature will be addressing how the "excess" TANF funds should be allocated in the 1999 biennium budget as well as the programmatic issues surrounding those choices.

See the agency summary in Section B for a complete discussion of the new federal welfare reform law and related budget issues.

PUBLIC HEALTH AND HUMAN SERVICES

In addition to federal welfare reform, the legislature will be faced with two other major fiscal issues relating to Public Health and Human Services in the 1999 biennium. These issues are briefly summarized below.

Mental Health Managed Care

The Executive Budget for the Department of Public Health and Human Services does not reflect the anticipated cost of the mental health managed care program that was authorized by the 1995 legislature and is now expected to be implemented April 1, 1997. The annual cost of the contract is estimated to be \$75 to \$80 million annually and will be funded from budget reallocations within the department. Therefore, while there is no overall expenditure increase expected, three division's budgets will be significantly impacted, including Health Policy & Services Division, Senior & Long-Term Care Division, and the Addictive & Mental Disorders Division. As contained in the Executive

Budget, the budgets for the Health Policy & Services and Senior & Long Term Care divisions are overstated, and the budget for the Addictive & Mental Disorders Division is understated.

See the agency summary in Section B for a discussion of the mental health managed care contract.

Revised Estimates

The legislature can expect that the Medicaid expenditure projections contained in the Executive Budget will be revised at least once during the legislative session. Historically the executive branch has updated its Medicaid estimates during the legislative session. In addition to Medicaid revisions, the legislature may also see updates to the foster care benefits and welfare benefits.

REORGANIZATIONS

The 1995 legislature effected two major and several minor reorganizations. The two major reorganizations realigned environmental programs and combined human services related programs into one agency. Another reorganization combined all functions of the Legislative Branch into one administrative agency structure. The Legislative Branch reorganization is discussed in the agency budget presentation, Section A, Volume I.

Program and Agency Realignment of the Major Reorganizations

Human Services

SB 345 reorganized delivery of human services programs by creating a new Department of Public Health and Human Services (PHHS) and changing the mission of the Department of Corrections and Human Services (DCHS), now called the Department of Corrections (DOC). DOC retained all adult corrections activities and assumed all juvenile corrections from the Department of Family Services (DFS). PHHS was created to administer all other functions of the Department of Social and Rehabilitation Services (SRS) and DFS, and the public health activities of the department of Health and Environmental Sciences (DHES). SRS and DFS were eliminated. The impact of this reorganization, along with the natural resources reorganization, was also to eliminate DHES.

The legislature transferred funding for all 25 programs to the new department. However, the legislature left to the executive the right to organize the new department along functional and programmatic lines as it saw fit. In implementing the reorganization during the interim, the executive transformed the new PHHS from those original 25 programs and divisions down to 9 divisions.

Natural Resources

SB 234 reorganized natural resource functions of the Departments of State Lands (DSL), DHES, and Natural Resources and Conservation (DNRC). The Department of Environmental Quality (DEQ) was created to enforce environmental laws and regulations, and certain natural resource management functions were shifted to DNRC. DSL was eliminated.

The legislature transferred all 19 programs (including portions of some centralized management programs shared with the new PHHS) to the reorganized departments. The programs in DNRC remain largely as funded by the legislature. However, DEQ underwent a complete internal reorganization, as well. For a further discussion, please see the DNRC narrative in the Agency Budgets and Analysis section, Volume I.

Costs of the Major Reorganizations

Any reorganization will have two kinds of costs: 1) actual quantifiable costs, such as moving, telephone lines, and the like; and 2) nonquantifiable costs, such as loss of productivity. The executive, in proposing the reorganizations, did not ask for any additional appropriations to fund any quantifiable costs of reorganization. Instead, the executive stated that any costs would be funded through vacancy savings. (The legislature reduced FTE in the second year of the biennium in both PHHS and DNRC due to estimated savings contained in the executive's fiscal note accompanying each bill.)

The Legislative Finance Committee (LFC) asked agencies to separately track all costs associated with reorganization on the state's official accounting records, so that an accurate count of quantifiable costs could be made. Staff estimate that the quantifiable costs of the PHHS reorganization total \$792,396, while the quantifiable costs of the natural resources reorganizations total \$246,052 in DNRC and DEQ. These figures do not include any estimates of the dollar value of any nonquantifiable costs. The LFD analysis includes a discussion of reorganization costs within the relevant agency narratives in the Agency Budgets and Analysis section, Volume I.

Impact on Budgeting

The extensive reorganizations undergone by DEQ and PHHS have two primary impacts:

- I) the programs for which the 1995 legislature provided funding no longer exist. Therefore, the program configurations the legislature may have been accustomed to examining will no longer appear; and

REORGANIZATIONS

2) base expenditures are as determined through the internal reorganization, and there may be no corresponding legislative appropriation figures with which to compare, except on the agency level.

Other issues specific to the individual reorganizations are discussed within the individual agency narratives in the Agency Budgets and Analysis section.

UNIFIED PREVENTION BUDGET

The 1995 legislature included language in HB 2 stating that the Department of Public Health and Human Services “shall prepare a unified budget for the interagency coordinating council on prevention of child abuse and neglect. The unified budget must identify services funded, expenditures by service in fiscal year 1996, and preliminary amounts budgeted for the 1999 biennium by service and fund type from the department, office of public instruction, board of crime control, and department of labor and industry...[t]he unified budget must be published in the governor’s budget request to the 55th legislature.”

The following is the Governor’s presentation of the unified budget request, prepared by the department and the Office of Budget and Program Planning. It is included in the LFD Overview in order to fulfill the requirements of inclusion in the Governor’s budget.

Governor’s Unified Prevention Budget

During the 1993 special session, the Montana legislature passed SB 34, creating an Interagency Coordinating Council (ICC) for Prevention Programs. The membership and duties of the ICC are found in 2-15-225, MCA.

ICC members meet approximately five times each year to guide the prevention effort within the state, to make policy decisions, and to keep apprised of critical issues in the delivery of prevention services to Montana communities.

An ICC work group, comprised of staff from member agencies, meets approximately every three weeks to implement the goals and objectives defined by the ICC.

The ICC for state prevention programs consists of the following members:

- Director of the Department of Public Health and Human Services
- Commissioner of the Department of Labor
- Attorney General
- Superintendent of Public Instruction
- Administrator of the Board of Crime Control
- Two persons appointed by the Governor

who have experience related to the private or non-profit provision of prevention programs and services

- Presiding officer of the Montana Children’s Trust Fund Board

Council Goals

Develop a coordinated, comprehensive system of prevention services throughout Montana.

Create a regional system for prevention planning and service delivery.

Build the capacity of the centralized Prevention Resource Center.

Build public support for the concept of prevention.

Provide adequate funding for ICC prevention initiatives.

Funding

The ICC is attached for administrative purposes only to the Governor’s Office, which may assist in providing staff and budgetary, administrative, and clerical services to the ICC as the ICC or its presiding officer may request. Staffing and other resources may be provided to the ICC only from state and non-state resources donated to the ICC and from direct appropriation by each legislature.

The 1995 legislature required the Department of Public Health and Human Services to prepare a unified budget for the prevention of child abuse and neglect prior to the 1997 legislative session. ICC issues and benchmarks served as the frame for this unified budget with prevention programs identified in all ICC member agencies. The unified budget identified below was presented to the Legislative Oversight Committee for Children and Families on September 16, 1996, and to the Legislative Finance Committee on September 18, 1996.

The ICC developed benchmarks for twenty items centered around three major issue areas: pregnancy related, childhood

UNIFIED PREVENTION BUDGET

health and welfare, and adolescent and adult behavioral issues. A fourth major item identifies root causes, e.g., poverty, hunger, housing/homelessness, but these areas have not been fully developed and are not included as elements of the unified budget. The benchmarks and items currently developed are listed below in order to explain the unified prevention budget which follows.

Pregnancy Related Issues

1) Family Planning - Estimated unmet need for services in Montana is 28 percent.

ICC Benchmark: By the year 2000, women's unmet need for family planning services will be reduced to 20 percent.

Administering Agency: DPHHS-Health and Policy Services (HPS)

2) Unintended Pregnancies - National survey indicates that 60 percent of all pregnancies are unintended.

ICC Benchmark: By 1998, establish a base line rate for unintended pregnancies in Montana; establish a benchmark for Montana.

Administering Agency: DPHHS-HPS

3) Teen Pregnancy - National survey indicates that 82 percent of teen pregnancies are unintended. Although Montana's teen pregnancy rate is lower than the national average, teen pregnancies exact a social and economic toll on Montana families and communities.

ICC Benchmark: By 1998, establish a base line rate for unintended teen pregnancy in Montana; establish a benchmark for Montana.

Administering Agencies: DPHHS-HPS, OPI, DPHHS-Child and Family Services (CFS)

4) Prenatal Care - In the five-year period of 1989-1993, only 78 percent of Montana women received prenatal care during the first trimester.

ICC Benchmark: By the year 2000, increase the proportion of Montana women who receive prenatal care during the first trimester to 90 percent.

Administering Agency: DPHHS-HPS

Childhood Health and Welfare Issues

5) Drug-Affected Babies - Results of a 1994-95 Montana (blind urine) study of pregnant women presenting for their first prenatal visit indicated that 74 percent of the women abstained from tobacco and 90 percent abstained from drugs (marijuana, opiates, amphetamines, benzodapines and cocaine). Abstention from alcohol could not be determined from the study.

ICC Benchmark: By 1998, establish base line for alcohol use in pregnant women; by the year 2000, increase abstinence from tobacco in pregnancy to 90 percent; increase abstinence from alcohol and drugs by 20 percent.

Administering Agency: DPHHS-HPS

6) Infant Mortality - Montana's infant mortality rate for 1988-1992 averaged 8.7 per 1,000 live births.

ICC Benchmark: By the year 2000, reduce the infant mortality rate to no more than 7 per 1,000 live births.

Administering Agency: DPHHS-HPS

7) Immunization - The immunization coverage rate for Montana's two year old children for 1994 was at 75 percent for DPT4, OPV3 and MMR1 (4:3:1)

ICC Benchmark: By the year 2000, 90 percent of two year-old children in Montana will be immunized with all the recommended vaccines.

Administering Agency: DPHHS-HPS

8) Early Child Care and Education - Based on 1990 Montana census figures, 40,740 children under age six are in need of child care because both parents or their sole single parent is in the work force (56.7 percent of all children in that age range). In May of 1996, a total of 21,172 slots for children existed in licensed or registered day care facilities.

ICC Benchmark: By the year 2000, increase the number of day care slots in licensed or registered day care facilities by at least 10 percent.

Administering Agency: DPHHS-CFS

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9) **Preschool: Head Start** - A number of family support programs have been developed in Montana for parents of young children. Successful program models indicate that programs must build on family strengths, respond to community needs, and be research based.

ICC Benchmark: By the year 2000, show an increase in the number of families who demonstrate improved family conditions and/or functions because of these programs.

Administering Agencies: DPHHS-CFS, DPHHS-HPS

10) **Child Abuse and Neglect** - In 1995, there were 16,903 alleged incidents of child abuse and neglect. Of these, 3,548 incidents were substantiated which is an incidence rate of 15.0 per 1,000 of the under age 18 population. (Note that the incident rate does not imply there are 15.0 referrals per 1,000 of the under 18 population since a referral may contain more than one incident).

ICC Benchmark: To be defined by the ICC.

Administering Agencies: DPHHS-CFS

11) **Foster Care** - The number of children in state paid foster homes for 1995 was 15.3 per 1,000 of the child/youth population.

ICC Benchmark: By the year 2000, reduce the rate of children in state paid foster homes to no more than 12 per 1,000.

Administering Agency: DPHHS-CFS

Adolescent and Adult Behavioral Issues

12) **Domestic Violence (Partner or Family Member Assault)** - In 1995, 3,334 partner or family member assault offenses were reported to Montana law enforcement officials. (Crime in Montana: 1995 Annual Report, BCC).

ICC Benchmark: By 1998, determine the percentage of the state population served by domestic violence programs. By the year 2000, increase the percentage served by at least 10 percent.

Administering Agencies: DPHHS-CFS, DOJ, DPHHS-HPS

13) **Youth Violence** - For 1995, 2,324 offenses against persons were attributed to youths who were referred to the Juvenile Justice System. These offenses against persons comprise 13.2 percent of all juvenile offenses. (Crime in Montana: 1995 Annual Report, MBCC).

ICC Benchmark: By the year 2000, reduce the incidence of juvenile violent crime to less than 10 percent of all juvenile offenses.

Administering Agencies: OPI, MBCC, DPHHS-Addictive & Mental Disorders Division (AMDD), DOJ, DPHHS-HPS

14) **Juvenile Delinquency** -For 1995, the number of individual youth who became involved in the Juvenile Justice System for criminal (delinquent), or non-criminal (status) offenses was 9,600. (Crime in Montana: 1995 Annual Report, MBCC). The rate of individual youth involved with the Juvenile Justice System is 40.65 per 1,000 of the under age 18 population.

ICC Benchmark: By the year 2000, reduce the number of youth referred to the juvenile justice system.

Administering Agency: MBCC

15) **Alcohol, Tobacco and Other Drugs** - According to the 1995 Montana Youth Risk Behavior Survey, youth report experimenting with tobacco, alcohol and other drugs prior to age 15 as follows: 43.2 percent smoked cigarettes; 65.3 percent used alcohol; 17.3 percent used marijuana; and 3.2 percent used cocaine.

ICC Benchmark: By the year 2000, reduce the use of tobacco, alcohol and marijuana by youth under age 15 by at least five percentage points; reduce the use of cocaine in this age group to no more than 2 percent.

Administering Agencies: OPI, MBCC, DPHHS-AMDD, DOJ

16) **Adolescent and Adult Tobacco Use** - The 1995 Montana Youth Risk Behavior Survey and the 1994 Behavior Risk Factor Surveillance Survey indicate that 23 percent of adolescents and 21.6 percent of

UNIFIED PREVENTION BUDGET

adults smoke cigarettes; 36 percent of adolescent males and 15.5 percent of adult males use chewing tobacco.

ICC Benchmark: By the year 2000, reduce cigarette smoking to 15 percent for all individuals age 15 and older; reduce the use of chewing tobacco to no more than 10 percent of adolescent males age 15 to 18 and no more than 7 percent among adult males.

Administering Agencies: DPHHS-AMDD, DPHHS-HPS

17) Sexually Transmitted Diseases - In 1995, Montana data indicated that the incidence of chlamydia was 148 per 100,000; gonorrhea was 8.4 per 100,000; and syphilis was 1.6 per 100,000.

ICC Benchmark: By the year 2000, reduce the incidence of chlamydia to 130 cases per 100,000; gonorrhea to less than 7 cases per 100,000 population; and syphilis to no more than 1.0 per 100,000.

Administering Agencies: OPI, DPHHS-HPS

18) HIV - During the first six months of 1996, 65 people tested HIV positive in Montana. In the past 11 years, 308 Montanans have been diagnosed with AIDS. Although these figures are significantly lower than the national average, HIV and AIDS are serious public health concerns for individuals, families and communities.

ICC Benchmark: By the year 2000, show no significant increase in Montana incidents of HIV or AIDS; show that 90 percent of Montana's adult population demonstrates knowledge of HIV infection and specific at-risk behaviors.

Administering Agencies: OPI, DPHHS-HPS

19) High School Completion - According to the 1994 Kids Count Data book, a five-year average indicated that 85.5 percent of Montana youth graduate from high school on time.

ICC Benchmark: By the year 2000, increase high school completion rate to 90 percent.

Administering Agencies: OPI, DPHHS-CFS, DOLI,

20) Injury Prevention - Motor vehicle injuries and

deaths on Montana highways and roads for 1995: 45 children under age 19 died; 170 adults died; 3,381 children under 19 were injured; 6,874 adults were injured.

ICC Benchmark: To be defined by the ICC.

Administering Agency: DOT, DPHHS-AMDD, OPI

Root Causes

21) Poverty - According to the 1994 Montana Kids Count Data Book, poverty affects 26 percent of all children under age five in Montana and 48 percent of all families headed by females. Overall, 21 percent of Montana's children under age 18 live in poverty.

ICC Benchmark: To be defined by the ICC.

Administering Agency: DPHHS-CFS, DPHHS-CSED, Commerce, OPI, Higher Education

22) Hunger - Poverty is the root cause of inadequate nutrition in the U.S. Research shows that children who experience even temporary spells of malnutrition during infancy or childhood may suffer health and learning setbacks that limit their growth and development. Many youth in Montana suffer from hunger. In a recent study, Montana ranked 15th among the 50 states for the percent of children suffering from hunger. (1995 Montana Youth Risk Behavior Survey, OPI, citing the Montana Hunger Coalition, 1993).

ICC Benchmark: To be defined by the ICC.

Administering Agency: DPHHS-CFS, DPHHS-AMDD, Commerce, OPI, Higher Ed.

23) Housing/Homelessness - Nationally, one in five persons reported as homeless is a child younger than 18. According to HUD, homelessness has increased faster among families with children than among any other group of Americans. Homeless children have higher rates of infant mortality, more severe health problems and a reduced chance of being immunized than other poor children. They are also at greater risk of missing school. In a 1994 survey of the unsheltered homeless population in four areas and two towns in Montana, 14 of 81 unsheltered

UNIFIED PREVENTION BUDGET

homeless respondents surveyed disclosed that they had children with them at the time of the survey. (Evaluation of Unsheltered Homeless, State of Montana, 1994, Final Report, prepared for the Intergovernmental Services Bureau, SRS).
ICC Benchmark: To be defined by the ICC.

Administering Agency: DPHHS-CFS, Commerce

The table that appears on the following page contains the ICC unified budget for those benchmarks that have been established.

UNIFIED PREVENTION BUDGET

Table 28

Issue	Budget Item	Agency	Fiscal 1996	Fiscal 1998	Fiscal 1999
<u>Pregnancy Related Issue</u>					
1) Family Planning	Family Planning	HHS-HPS	\$1,236,769	\$1,258,739	\$1,259,542
	MIAMI Family Planning Health Educator	HHS-HPS	0	27,396	33,196
	Subtotal		\$1,236,769	\$1,286,135	\$1,292,738
2) Unintended Pregnancies	Family Planning	HHS-HPS	See Item 1.	See Item 1.	See Item 1.
	Prevention of Unintended Pregnancy	HHS-HPS	0	250,000	250,000
	Subtotal		\$0	\$250,000	\$250,000
3) Teen Pregnancy	Family Planning	HHS-HPS	See Item 1. & 2.	See Item 1. & 2.	See Item 1. & 2.
	Health Enhancement Curriculum	OPI	N/A	N/A	N/A
	Building Skills for Adulthood Program	HHS-CFS	See Item 19.	See Item 19.	See Item 19.
	Subtotal		\$0	\$0	\$0
4) Prenatal Care	MIAMI Project	HHS-HPS	\$587,428	\$609,450	\$655,619
	MIAMI Exp.-Selected Indian Reservations	HHS-HPS	0	75,000	75,000
	Women, Infants, & Children (WIC)	HHS-CFS	11,720,286	15,767,602	15,888,809
	Subtotal		\$12,307,714	\$16,452,052	\$16,619,428
	Pregnancy Related Issues Total		<u>\$13,544,483</u>	<u>\$17,988,187</u>	<u>\$18,162,166</u>
<u>Childhood Health and Welfare Issues</u>					
5) Drug-affected Babies	MIAMI Project	HHS-HPS	See Item 4.	See Item 4.	See Item 4.
	Subtotal		See Item 4.	See Item 4.	See Item 4.
6) Infant Mortality	MIAMI Project	HHS-HPS	See Item 4.	See Item 4.	See Item 4.
	Women, Infants, & Children (WIC)	HHS-CFS	See Item 4.	See Item 4.	See Item 4.
	Subtotal		See Item 4.	See Item 4.	See Item 4.
7) Immunization	Montana Immunization	HHS-HPS	\$980,616	\$1,082,530	\$1,082,538
	Subtotal		\$980,616	\$1,082,530	\$1,082,538
8) Early Child Care and Education	Day Care	HHS-CFS	\$7,863,817	\$7,785,935	\$8,451,302
	FAIM Child Care Support	HHS-CFS	0	3,357,241	3,526,268
	Subtotal		\$7,863,817	\$11,143,176	\$11,977,570
9) Preschool: Head Start	Partnership Project	HHS-CFS	See Item 10.	See Item 10.	See Item 10.
	School Health Coordinator	HHS-HPS	0	67,984	76,981
	Subtotal		\$0	\$67,984	\$76,981
10) Child Abuse and Neglect	Partnership Project	HHS-CFS	\$1,441,560	\$1,576,870	\$1,577,190
	Family Preservation Services	HHS-CFS	0	664,000	664,000
	Family Preservation/Family Support	HHS-CFS	185,747	515,493	550,075
	Big Brothers/Big Sisters	HHS	182,148	184,880	184,880
	Subtotal		\$1,809,455	\$2,941,243	\$2,976,145
11) Foster Care	Foster Care	HHS-CFS	\$13,101,862	\$13,849,123	\$14,661,305
	Partnership Project	HHS-CFS	See Item 10.	See Item 10.	See Item 10.
	Family Preservation/Family Support	HHS-CFS	See Item 10.	See Item 10.	See Item 10.
	Permanency Planning Staff	HHS-CFS	0	25,000	254,561
	Subtotal		\$13,101,862	\$13,874,123	\$14,915,866
	Childhood Health and Welfare Issues Total		<u>\$23,755,750</u>	<u>\$29,109,056</u>	<u>\$31,029,100</u>

UNIFIED PREVENTION BUDGET

Table 28 continued

Issue	Budget Item	Agency	Fiscal 1996	Fiscal 1998	Fiscal 1999
Adolescent and Adult Behavioral Issues					
12) Domestic Violence	Domestic Violence Prevention	HHS-CFS	\$318,237	\$341,864	\$341,864
(Partner or Family Member Assault)	Partnership Project	HHS-CFS	See Item 10.	See Item 10.	See Item 10.
	STOP Violence Against Women Act	Justice	2,723	107,000	107,000
	Rape Prevention and Education	HHS-HPS	0	92,400	92,400
	Sexual Assault Project	HHS-HPS	21,351	21,351	21,351
	Subtotal		\$342,311	\$562,615	\$562,615
13) Youth Violence	Safe & Drug Free Schools and Communities	OPI	See Item 15.	See Item 15.	See Item 15.
	Safe & Drug Free Schools and Communities	MBCC	See Item 15.	See Item 15.	See Item 15.
	Substance Abuse Prev. & Treatmnt Blk Grant	HHS-AMD	See Item 15.	See Item 15.	See Item 15.
	AG's Task Force on Youth Violence	Justice	4,500	0	0
	MT Healthy Communities	HHS-HPS	0	30,000	30,000
	Subtotal		\$4,500	\$30,000	\$30,000
14) Juvenile Delinquency	Juvenile Justice and Delinquency Prevention	MBCC	\$95,000	\$100,000	\$100,000
	Drug Control and System Improvement	MBCC	2,219,465	2,500,000	2,500,000
	Subtotal		\$2,314,465	\$2,600,000	\$2,600,000
15) Alcohol, Tobacco and Other Drugs	Safe & Drug Free Schools and Communities	OPI	\$1,650,062	\$1,650,062	\$1,650,062
	Safe & Drug Free Schools and Communities	MBCC	382,340	416,711	475,000
	Substance Abuse Prev. & Treatmnt Blk Grant	HHS-AMD	645,255	625,551	625,551
	DARE Program	Justice	45,000	45,000	45,000
	DARE Training	Justice	20,000	17,000	0
	Subtotal		\$2,742,657	\$2,754,324	\$2,795,613
16) Adolescent and Adult Tobacco Use	Substance Abuse Prev. & Treatmnt Blk Grant	HHS-AMD	See Item 15.	See Item 15.	See Item 15.
	Tobacco Use Prevention & Control	HHS-HPS	233,063	297,050	307,045
	Subtotal		\$233,063	\$297,050	\$307,045
17) Communicable Disease	HIV-STD Education Program	OPI	See Item 18.	See Item 18.	See Item 18.
	STD Prevention	HHS-HPS	225,007	251,977	255,870
	Subtotal		\$225,007	\$251,977	\$255,870
18) HIV Prevention	HIV-STD Education Program	OPI	\$239,246	\$239,246	\$239,246
	HIV Prevention	HHS-HPS	800,004	1,350,004	1,400,004
	Subtotal		\$1,039,250	\$1,589,250	\$1,639,250
19) High School Completion	Building Skills for Adulthood (Indep Living)	HHS-CFS	\$267,422	\$259,847	\$259,847
	Jobs for Montana Graduates	DOLI	222,728	225,181	225,181
	JTPA Youth Employment Program	DOLI	2,898,872	2,166,859	2,166,859
	Subtotal		\$3,389,022	\$2,651,887	\$2,651,887
20) Injury Prevention	Traffic Education Program	OPI	\$1,036,887	\$1,075,000	\$1,075,000
	MT Advanced Driving Program	OPI	83,103	92,666	92,666
	MT Motorcycle Safety Education Program	OPI	115,443	165,174	165,174
	Subtotal		\$1,235,433	\$1,332,840	\$1,332,840
	Adolescent and Adult Behavioral Issues Total		<u>\$11,525,708</u>	<u>\$12,069,943</u>	<u>\$12,175,120</u>
	Prevention Budget Total		<u>\$48,825,941</u>	<u>\$59,167,186</u>	<u>\$61,366,386</u>



GENERAL REFERENCE

BUDGET BASICS

This section provides an overview of the basic budget concepts, definitions of budget terms, and background and reference information pertinent to the 1999 biennium budget.

Budget Process

Prior to the November 1993 Special Session, Montana statute required that the director of the Office of Budget and Program Planning (OBPP) include “the current funding level and the modified funding level, if any” for each program in state government. “Current funding level” was defined as “that level of funding required to maintain operations and services at the level authorized by the previous legislature, after adjustment for inflation”. “Modified funding level” was defined to reflect “workload increases, the provision of new services, or changes in authorized funding”. Statute further required that the director submit the budget to the Legislative Fiscal Analyst (LFA) no later than December 1.

Partly due to timing considerations, the Legislative Fiscal Division (LFD) analysis consisted primarily of the development of separate “current level” budget options. Changes from base year expenditures were always delineated in both the LFD and Executive Budget “current levels”. However, legislative scrutiny was primarily directed toward differences between the LFD and Executive Budget “current levels”, rather than toward increases (or decreases) from the base. Base changes received little scrutiny from the legislature.

The legislature made two primary changes in fiscal 1994: 1) redefinition of certain budget terms, with emphasis on a three tier budget presentation; and 2) adjustment of statutory budget submission dates. The emphasis on a three tier budget presentation more specifically directs the type of budget information that must be provided to the legislature, and provides the legislature the opportunity to use the base budget as the starting point for legislative review, as opposed to “current level”.

Budget Terms

Budgets must be submitted in three tiers to allow legislative scrutiny of all stages of budget development:

1) the base - defined as the level of funding authorized by the previous legislature. The base and how it is derived are discussed in more detail in the “Base Budget” narrative in this section.

2) present law - defined as that additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to legally mandated workload, caseload, or enrollment changes; changes in funding requirements; inflationary or deflationary adjustments; and elimination of one-time appropriations. Present law essentially mirrors the previous “current level”; and

3) new proposals - defined as requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding.

As a result, the LFD developed and presented the format included in the LFD Budget Analysis to the 1995 legislature. The Executive Budget contains this method of presentations in this biennium as part of a joint budget presentation.

The basis for comparison of budget changes is the base biennium budget as opposed to “current level”.

Submission Dates

As stated, the director of OBPP was formerly required to submit the Executive Budget to the LFD by December 1. The director is now required to submit a preliminary budget reflecting the base budget by October 10, and a preliminary budget reflecting a present law base by November 1. The director is further directed to submit an entire preliminary budget by November 15. As a result, the LFD determined that it would no longer determine a “current level”. Instead, the LFD provides a more detailed and comprehensive analysis of the Executive Budget, as well as other policy issues.

Joint Executive Budget/LFD Budget Analysis

The 1997 legislature passed legislation requiring that the

BUDGET BASICS

Legislative Fiscal Analyst, "...in a mutually prescribed format, publish the Governor's budget and incorporate the information required by 17-7-123 [the section prescribing the form of the Executive Budget] in a combined Governor's budget and Legislative Fiscal Analyst's budget analysis presentation." The joint Executive Budget/LFD Budget Analysis is the result of that directive.

The Governor and OBPP have an obligation to present, defend, and advocate public policy for the State of Montana. It is the duty of the Legislative Fiscal Division to ensure that the legislature has independent, nonbiased information with which it can make decisions. These two duties, which lie at the heart of the purpose of each office, are fundamentally different. Consequently, while the book is jointly presented, the budget was not jointly developed. The LFD did not at any time participate in decisions regarding any adjustments or inclusions in the Executive Budget. However, the LFD and OBPP did work cooperatively to determine how the book would be structured and the form in which the information would be presented.

Types of Legislative Appropriations

Article VIII, Section 14, of the Montana Constitution reads:

Prohibited Payments. Except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law and a warrant drawn by the proper officer in pursuance thereof.

In 17-7-501, MCA, there are three types of appropriations within the meanings of "appropriation made by law" as used in Article VIII, Section 14, of the Montana Constitution. These are:

- 1) temporary appropriations - enacted by the legislature as part of designated appropriations bills or sections designated as appropriations in other bills;
- 2) temporary appropriations - made by valid budget amendment; and
- 3) statutory appropriations - made by permanent

law that authorize spending by a state agency without the need for a temporary legislative appropriation or budget amendment. These statutory appropriations are listed in 17-7-502, MCA.

HB 576/Proprietary Funds

Not all programs require appropriations. The 1995 legislature passed HB 576, which, among other features, eliminated the requirement in statute that most proprietary funds be appropriated.

Proprietary funds (internal service and enterprise funds) are those collected in return for the provision of a service or product (such as the provision of computer services to agencies of state government), or services for which a fee is charged (such as legal services).

In previous biennia, funding related to certain services was double appropriated in HB 2: once in the program paying the fees and charges, and again in the program providing the service, in order to allow expenditure of funds collected. Appropriations to allow programs to pay fees and charges remain in HB 2 and are reflected in the Executive Budget. HB 576 statute no longer requires appropriation in the program providing the service. Consequently, funding for a number of programs was removed from HB 2 in the 1997 biennium that had appeared as expenditures in HB 2 in previous biennia. Table 1 lists the programs removed. In limited instances, portions of programs remain appropriated in HB 2.

Statute requires that the legislature establish fees and charges for all proprietary funded programs and restricts those programs from increasing those fees and charges during the biennium. In addition, the Executive Budget must include a rate analysis. All budget and analysis information pertaining to proprietary funded programs is included in the section entitled "Proprietary Rate Setting and State Fund" and do not appear in the base budget for any programs in the "Agency Budgets and Analysis" section.

BUDGET BASICS

Table 1
HB 576 Programs/Functions
1999 Biennium

Agency/Program or Function
<u>Secretary of State</u>
Bus/Govt Svc - Records Mgmt
<u>Transportation</u>
Motor Pool
Equipment
Aeronautics
<u>Revenue</u>
Liquor Division
<u>Administration*</u>
Bad Debt Collections
Accounting/Mgmt Support
Procurement and Printing
Information Services
General Services
Central Mail
State Personnel
Risk Management/Tort Defense
<u>Public Health and Human Services</u>
Director's Office
Centralized Services
Legal Services
<u>Labor and Industry</u>
Mt. Career Information Center
Commissioner's Ofc/Central Svc
<u>Fish, Wildlife, Parks</u>
Administration and Finance
Field Services
Parks
Forestry
<u>Environmental Quality</u>
Central Management
<u>Commerce</u>
Professional/Occupational Lic.
Local Gov't Audit & Systems
Local Gov't Assistance
Health Facilities
Board of Housing
Board of Investments
Montana State Lottery
Director/Management Services
<u>Agriculture</u>
Agricultural Sciences
<u>Justice</u>
Agency Legal Services
<u>Corrections</u>
Industries/Ranch-Dairy, etc.
<u>Office of Public Instruction</u>
Centralized Services
<u>Montana University System</u>
MUS Group Insurance

Base Budget

The Executive Budget used actual fiscal 1996 expenditures as recorded on the Statewide Budgeting and Accounting System (SBAS) as the base for determining a present law budget for the 1999 biennium. Certain items were then excluded from actual expenditures in order to create a base that reflects only: 1) the cost of ongoing programs or functions approved by the last legislature; and 2) expenditures authorized by the legislature. OBPP and LFD staff reached agreement on virtually all expenditures that would be removed from the base. The LFD analysis provides an explanation in any program in which a base difference remains.

Following is an explanation of each type of expenditure category excluded from the base:

Appropriation Transfers

Section 17-7-301, MCA, allows the Governor to authorize the transfer of funds appropriated for the second year of the biennium to the first if the Governor finds that "due to an unforeseen or an unanticipated emergency" the amount appropriated for the first year of the biennium "will be insufficient for the operation and maintenance of the department." Since the transfers did not result from legislative action and may be for one-time costs, these transfers are excluded from the base. However, if the transfer funds an ongoing cost, OBPP adjusted the present law budgets for the next biennium accordingly.

Budget Amendments

Budget amendments provide temporary authority to agencies to spend unanticipated non-general fund revenue received after the legislature adjourns to provide additional services. In accordance with 17-7-402, MCA, budget amendment authority terminates at the end of each biennium and can make no "ascertainable present or future significant commitment for increased general fund support." Expenditures financed through budget amendments are excluded from the base. If an agency wishes to continue an activity financed with a budget amendment in the next biennium, the request must be presented as a new proposal.

BUDGET BASICS

One-Time Appropriations

In general, miscellaneous or “cat and dog” appropriations (appropriations made in bills other than the general appropriations act) are considered “one-time” and not continued in the base. The legislature may also specify in appropriation acts that an appropriation is not intended to be ongoing and may not be included in the base.

Language Appropriations

In appropriation acts, the legislature may authorize expenditure of funds from a specific source without providing a specific dollar appropriation. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds but is uncertain as to the amount. In order to be sanctioned by law as an appropriation, the statute must fix at least a maximum amount that the appropriations may not exceed. Assuming that ongoing expenditures from these sources will again be authorized through language, the expenditures are excluded from the base.

Non-Budgeted Expenditures

Generally Accepted Accounting Principles (GAAP) require agencies to make accounting entries for depreciation, amortization, and other financial transactions that show as expenditures but don’t actually result in expenditure of funds from the state treasury.

Statutory Appropriations

Section 17-7-501, MCA, provides that funds may be appropriated in permanent law, rather than through appropriation bills, which are effective for only one biennium. In order for a statutory appropriation to be valid, the statute creating the appropriation must specifically state that it is a statutory appropriation and the statute must be listed in section 17-7-502, MCA. Currently, there are over 90 valid statutory appropriations listed in that section. Examples of statutory appropriations include: personal property reimbursements made to local governments and schools and motor fuel tax revenues distributed to counties.

Other Appropriations

This category includes administrative transfers created by OBPP, continuing appropriations from previous years, internally offsetting adjustments to appropriations, and miscellaneous appropriations.

Entitlement and Formula-Funded Programs

Under current state and federal law, certain programs are “entitlement”, and projected growth or declines in these programs are funded as part of the present law budget, rather than through a new proposal. For example, the legislature has established statutory levels of state foundation support for each child enrolled in Montana public schools. Similarly, federal and state laws require that persons eligible for Medicaid receive specified services or grants. The programs treated as entitlement are: K-12 BASE aid, Medicaid, and foster care. Prior to the enactment of federal welfare reform, Aid to Families with Dependent Children (AFDC) was also considered an entitlement. This federal entitlement no longer exists.

Personal Services “Snapshot”

Personal services costs comprise about 43 percent of total agency operating expenditures (excluding capital outlay, grants and benefits, and transfers) in the 1999 biennium Executive Budget.

The Executive Budget is based on a “snapshot” of actual salaries for authorized FTE as they existed in the last pay period of fiscal 1996. The executive includes annualization of the pay increase awarded in fiscal 1996 and 1997.

Workers’ Compensation and Unemployment Insurance rates vary from agency to agency. Each agency has a different rate based on its own experience. Fiscal 1997 rates were adjusted to project fiscal 1998 and fiscal 1999 levels based on advice provided by representatives of the State Mutual Insurance Compensation Fund and the Department of Labor and Industry.

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Vacancy Savings

Vacancy savings is the difference between the full cost and the actual cost of authorized employee positions during a budget period. Since 1979, the legislature has periodically applied a vacancy savings factor to agency budgets in recognition of the fact that staff turnover and vacancies often result in personal services expenditures that are lower than the amounts appropriated.

The 1989 legislature did not apply a vacancy savings factor for the 1991 biennium budgets. Instead, it included language in HB 100 prohibiting agencies from expending funds appropriated for personal services in any other category (with certain limited exceptions). Although OBPP did not establish any procedure to monitor and verify the expenditure of personal services funds, it estimated that \$6 million of general fund appropriated for personal services was reverted in fiscal 1990.

During the 1991 regular session, the legislature applied vacancy savings rates for agencies ranging from 0 percent (for agencies with 20 or fewer FTE and university and colleges of technology faculty) to 4 percent. In the January and July special sessions, the legislature reduced vacancy savings rates for some agencies and increased vacancy savings rates for other agencies. In addition, the legislature imposed general budget reductions, which many agencies met by holding positions vacant.

The 1993 legislature applied vacancy savings rates of 5 percent on all non-federally funded personal services, with the exception of the Montana University System (except CHE) and certain other positions, such as direct care workers. The legislature also added contingency funds, equal to 10 percent of general fund and 20 percent of other funds vacancy savings, to the Department of Administration (DofA). The funds were for distribution to agencies that did not experience the anticipated vacancy savings.

In the 1997 biennium the legislature included varying vacancy savings rates among selected agencies and programs within agencies in order to fund the executive pay plan. A contingency fund of \$500,000 general fund and \$1,000,000 other funds was included.

In the 1999 biennium, the executive: 1) includes a 3 percent vacancy savings rate in most programs to partially fund the pay plan proposal; and 2) proposes a contingency fund of \$4.0 million general fund and \$13.0 million total funds. A further discussion of the pay plan is included in the "Executive Budget Summary" of this volume.

Fixed Costs

Agencies are charged fees (called fixed costs) for a variety of services provided by other state agencies. The executive includes fixed costs for the following services: DofA insurance and bonds (2104), DofA warrant writing fees (2113), DofA payroll service fees (2114), Legislative Auditor audit fees (2122), DofA network fees (2174), messenger services (2307), DofA rent (2527), capitol complex grounds maintenance (2770), and state fund cost allocation plan (2895). Fixed costs total \$39.8 million during the 1999 biennium.

Table 2 shows the total amounts included in the Executive Budget for fixed costs.

Table 2 Total Fixed Costs - Executive Budget 1999 Biennium		
Agency Providing Service	Service	(Millions)
Administration	Insurance and Bonds	\$12.5
	Warrant Writing Fees	1.6
	Payroll Service Fees	1.2
	Data Network Services	11.3
	Messenger Services	0.3
	Rent - Buildings	8.3
Legislative Audit Division	Audit Fees	2.7
Fish, Wildlife and Parks	Grounds Maintenance	0.6
Various	State Fund Cost Allocation Plan	1.3
Total		\$39.8

Due to the passage of HB 576, the agencies that pay the costs receive an appropriation in HB 2 for that purpose. However, the agencies providing the service do not require an appropriation and are not included in HB 2, with the exception of audit fees. Instead, the legislature will establish

BUDGET BASICS

the rates the providing programs may charge. Each function is discussed in the "Proprietary Rate Setting and State Fund" section.

Insurance and Bonds

The Risk Management and Tort Defense (RMTD) Division of the DofA collects premiums from state agencies for: 1) administration of the self-insurance program, which provides state agencies with general liability and automobile coverage; and 2) purchase of commercial policies for state agency property, aircraft, and other risk coverage. Costs are allocated to agencies based on actual loss experience, and inherent exposure.

Payroll Service Fees

The State Payroll program in DofA prepares and distributes payroll for all state agencies, and operates the state payroll, personnel, and position control (PPP) system. Costs of these services are allocated to agencies based on the number of paychecks issued for each agency each year.

Data Network Services

The Information Services Division (ISD) of DofA charges agencies for the technology network that allows agency personal computers to be attached to the state mainframe and, via the mainframe, to other agency computers. Costs of this service are allocated to agencies based on the projected number of personal computers connected to the network each year, utilizing the fixed monthly rate per computer to determine the overall agency charge.

Messenger Service

The Mail and Distribution program in DofA charges state agencies for inter-agency mail pick-up and delivery services. Costs of these services are allocated to agencies based on the volume of mail generated by, and number of daily deliveries to, each agency.

Rent

The General Services Division (GSD) of DofA charges rent

to state agencies for costs of maintaining office and warehouse space in buildings GSD manages in the capitol complex (including utility costs, security, janitorial services, mechanical maintenance, and minor maintenance such as painting, lighting, carpeting, etc.). Warehouse costs are allocated to agencies based on the amount of square footage of office warehouse space occupied and a fixed rate per square foot.

Warrant Writing Fees

DofA provides warrant writing and direct deposit services for agency financial transactions. The costs of these services are allocated to agencies based on fiscal 1994 utilization of the various types of financial transactions.

Audit Fees

The Legislative Audit Division charges agencies for costs of financial compliance audits. These charges are included in agency budgets as biennial appropriations and allocated according to the estimated number of billable hours for each agency audit.

Grounds Maintenance

The Parks Division of FWP charges state agencies for grounds maintenance and snow removal at capitol complex buildings. Costs of these services are allocated based on the amount of office space square footage occupied by each agency.

State Fund Cost Allocation Plan (SFCAP)

DofA administers the SFCAP, which charges non-general fund agencies and/or programs for operating costs of state government that cannot easily be identified with particular funding sources. These collections are deposited to the general fund to offset a portion of those programs' costs.

Operating costs of the following programs are partially recovered through SFCAP collections: State Personnel and the Accounting and Management Support Divisions of DofA, and the Office of Budget and Program Planning in the Governor's Office. Costs are allocated to agencies based on

BUDGET BASICS

the following: a) State Personnel - the number of FTE appropriated and classified, and the number of negotiated labor contracts; b) Accounting and Management Support - the number of SBAS and cash transactions, and actual expenditures; and c) OBPP - the number of FTE and budgeted fund expenditures.

Inflation/Deflation Factors

The Executive Budget does not include a general inflation factor for all operating expenses. Instead the executive applies inflation (or deflation) factors to ongoing specific expenditure items.

During the budget development cycle, the staff of the executive and the LFD agreed on inflation/deflation factors for selected expenditure items. Table 3 shows the inflation factors used by the executive in preparation of the present law budget. Following the table is a summary of the data used in preparing the inflation/deflation factors.

The impact of applying inflation factors to the Executive Budget was a reduction in present law costs of \$1.2 million. While most items were inflated, items associated with computer processing and telephone expenditures were deflated.

Indexes Chosen

The indexes consulted in formulating inflation factors include the Consumer Price Index (CPI) for urban consumers and the Implicit Price Deflator (IPD). The factors were those published by Wharton Econometrics Forecasting Associates. Inflation factors for state expenditures on electricity and natural gas were derived from consultation with Montana Power Company (MPC) and Montana Dakota Utilities (MDU). Inflation factors for items associated with the Information Services Division (ISD) were derived from consultation with ISD personnel. The inflation factors for energy related items utilized the IPD index, which measures the change in prices of goods and services included in the Gross Domestic Product of the US. The inflation factors for food related items utilized the CPI, which measures changes in prices for a fixed basket of goods traded in the US relative to prices traded in a base

Table 3
Inflation/Deflation Factors, 1999 biennium
For Application to FY96 Base

Expenditure Code	Expenditure Category	FY98	FY99
<u>Energy Related Items</u>			
2216	Gasoline	1.071	1.117
2242	Diesel Fuel	1.071	1.117
2297	Propane Vehicle Fuel	1.071	1.117
2601	Electricity		
	MDC Service Area	1.000	1.000
	MPC Service Area	1.058	1.058
2603	Natural Gas		
	MDC Service Area	1.050	1.074
	MPC Service Area	1.050	1.074
2604	Laboratory Gas	1.071	1.117
2607	Propane	1.071	1.117
2724	Oil	1.071	1.117
2731	Paint-Buildings	1.071	1.117
2732	Paint-Traffic Line	1.071	1.117
2738	Road Oil	1.071	1.117
2742	Oil Mixed Materials	1.071	1.117
<u>Food Related Items</u>			
2117	Board & Room	1.049	1.067
2145	Food Services Expense	1.049	1.067
2205	Food	1.049	1.067
2251	Meat	1.049	1.067
2252	Dairy	1.049	1.067
2253	Produce	1.049	1.067
2254	Bakery	1.049	1.067
2264	Grocery	1.049	1.067
2275	Poultry	1.049	1.067
2278	Beverages	1.049	1.067
2279	Red Meat	1.049	1.067
2288	Canned Goods	1.049	1.067
2289	Staples	1.049	1.067
2291	Sea Foods	1.049	1.067
2292	Pork	1.049	1.067
<u>Proprietary Rate Items</u>			
2172	Computer Processing/DofA	0.670	0.540
2370	Telephone Equip Charge/DofA	0.730	0.730
2304	Postage and Mailing	1.030	1.030
2385	Long Distance Charge/Dof A	0.900	0.900
2190	Printing/P&G	1.000	1.000
2193	Photocopy Pool Services	1.120	1.120
2194	SBAS O,E & E	0.670	0.540
2404	In-State Motor Pool	1.274	1.207
<u>Medical Items</u>			
2106	Lab Testing	1.056	1.090
2116	Medical Services	1.056	1.090
2118	Medical Services	1.056	1.090
2119	Dentistry	1.056	1.090
2170	Prescription Services	1.056	1.090
2208	Lab Equip & Supplies	1.056	1.090
2209	Medical & Hospital Supplies	1.056	1.090
2222	Drugs	1.056	1.090
2265	Misc Medications	1.056	1.090

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year. The inflation factors for medical items utilized the CPI.

ISD Computer and Telephone Costs

Prices charged to state agencies and other users of state computer and telephone services during the 1999 biennium were calculated so as to leave no more than a 45 day working capital reserve.

Computer processing rates charged by ISD will continue to decline during the 1999 biennium. Mainframe computer processing costs will be reduced by 33 percent below fiscal 1996 rates in fiscal 1998 and 46 percent below fiscal 1996 rates in fiscal 1999. These reductions are due to technical enhancements that improve price/performance utilization, both of which drive down the cost of processing.

Rates also decrease for Department of Administration (DofA)-owned telephone equipment charges and DofA long-distance service. Equipment charges fall by 27 percent in fiscal 1998 and then are constant in fiscal 1999. This will occur due to reduced equipment recovery costs and increased utilization of modems and facsimile machines. Long distance rates decline by 10 percent in fiscal 1998 and then are constant in fiscal 1999 due to increased volume of calls.

Publication and Graphics

DofA will hold Publication and Graphics printing rates constant in fiscal 1998 and in fiscal 1999. Photocopy pool rates are expected to increase by 12 percent in fiscal 1998 and remain at that level for fiscal 1999.

Cost increases are driven by anticipated costs of printing, paper, and copying supplies. The photocopy pool price

increases reflect vendor contract prices for providing copy machines and service. A new photocopy pool contract is expected to begin in fiscal 1998.

Postage and Mailing

Central mail rates increase 3 percent in fiscal 1998 and then are constant in fiscal 1999. There are no expected increases in US postal rates during the 1999 biennium.

Utilities

Inflation rates for electricity and natural gas were based on surveys of MPC and MDU. MPC projects that rates for electricity will be 5.8 percent higher in fiscal 1998 in fiscal 1999 than in fiscal 1996. MDU projects electricity rates will be equal to those prevailing in fiscal 1996.

Staff at both MPC and MDU anticipate natural gas rates will increase 5 percent in fiscal 1998 and 7.4 percent in fiscal 1999 compared with fiscal 1996. Natural gas prices nationally increased dramatically in the winter of 1996. They are expected to decline to more normal levels in the next two years. Year-to-year increases are expected to resume from 1997 through 1999.

Travel

The Department of Transportation plans to increase motor pool rates by 27.4 percent in fiscal 1998 and then reduce these rates somewhat in fiscal 1999. The DOT plans to double its fleet size and lease vehicles to agencies which currently purchase their own vehicles. The increase in rates in fiscal 1998 reflects the increased debt service commitment associated with the vehicle purchase.

HISTORY OF PUBLIC SCHOOL FUNDING

State Support for K-12

During the 1997 biennium, state support for public elementary and secondary schools (K-12 grades) will be \$917.1 million, as shown in Table 1. This is the single largest expenditure of state funds, dwarfing the 1997 biennial general fund appropriation of \$259.5 million to operate state government agencies, \$225.7 million for the University system, and \$467.7 million for the Department of Public Health and Human Services.

Table 1
State Support for K-12 Education
1995, 1997 and 1999 Biennia, Current Law
(In Millions)

Program	1995 Biennium	1997 Biennium*	1999 Biennium**
Direct State Aid	539.684	542.443	553.791
Guaranteed Tax Base	266.489	279.182	266.634
Transportation	20.640	20.763	20.700
Special Education	67.375	67.215	67.476
Other	11.301	7.457	9.722
Total	905.489	917.060	918.323
Percent Growth		1.28 %	0.14 %

* Actual Fiscal 1996 and projected Fiscal 1997

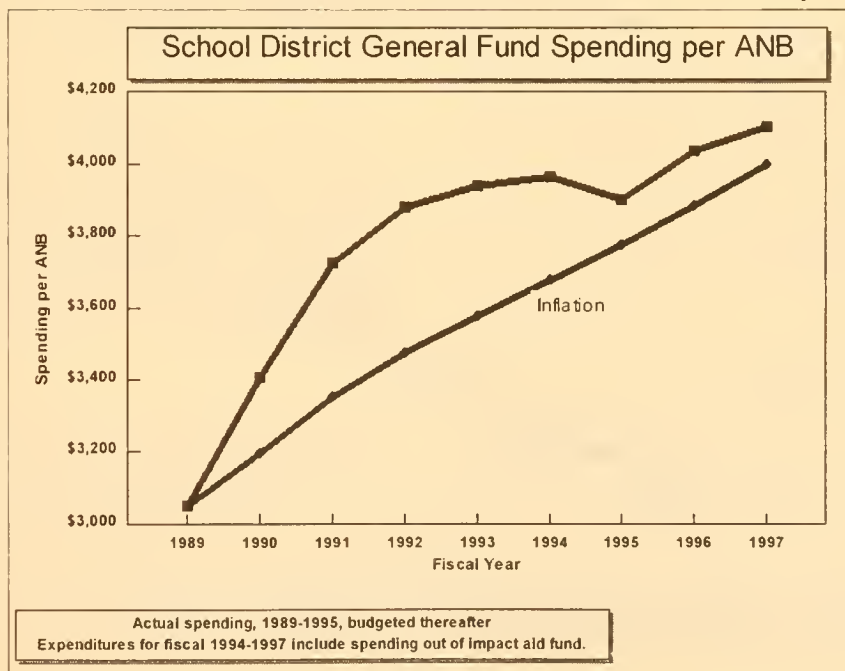
** Projected for the 1999 biennium, with reductions in GTB due to reappraisal

State support increases with the number of students in school and with increases in schedule amounts approved by the legislature. Between the 1997 and 1999 biennium, Average Number Belonging (ANB) are expected to increase 1.7 percent. However, total state spending is expected to increase by only 0.14 percent between the 1997 biennium and the 1999 biennium. The major reason for the small increase is a reduction in guaranteed tax base (GTB) aid due to property reappraisal. A discussion of present law state support for public schools and the executive new proposals is discussed under "Public School Funding" in this volume.

Recent History of K-12 Funding

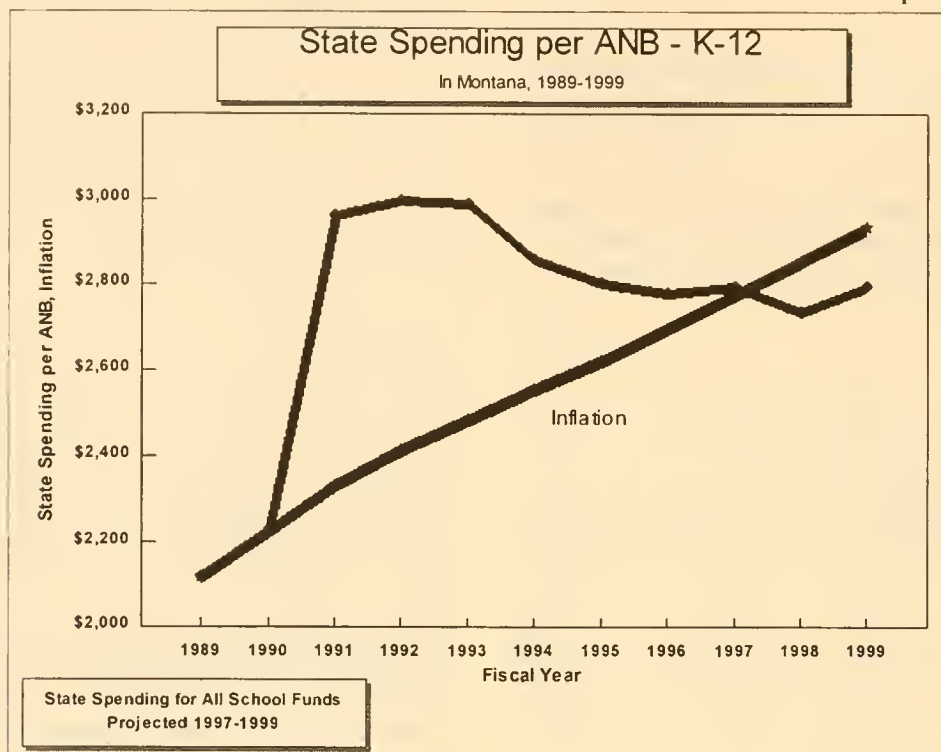
The state provides support for schools' general fund, transportation, retirement, and other minor funds. Support for districts' general fund had fallen to less than 2/3 of general fund spending by fiscal 1990. In June 1989, a special session of the legislature passed HB 28 which increased the state's share of K-12 general fund support to over 71 percent effective in fiscal 1991. As Graphs A and B below show, both state support and general fund budgets, expressed on a per ANB basis, increased dramatically between fiscal 1990 and fiscal 1991. Graph C shows the impact on property tax collections dedicated to K-12.

Graph A

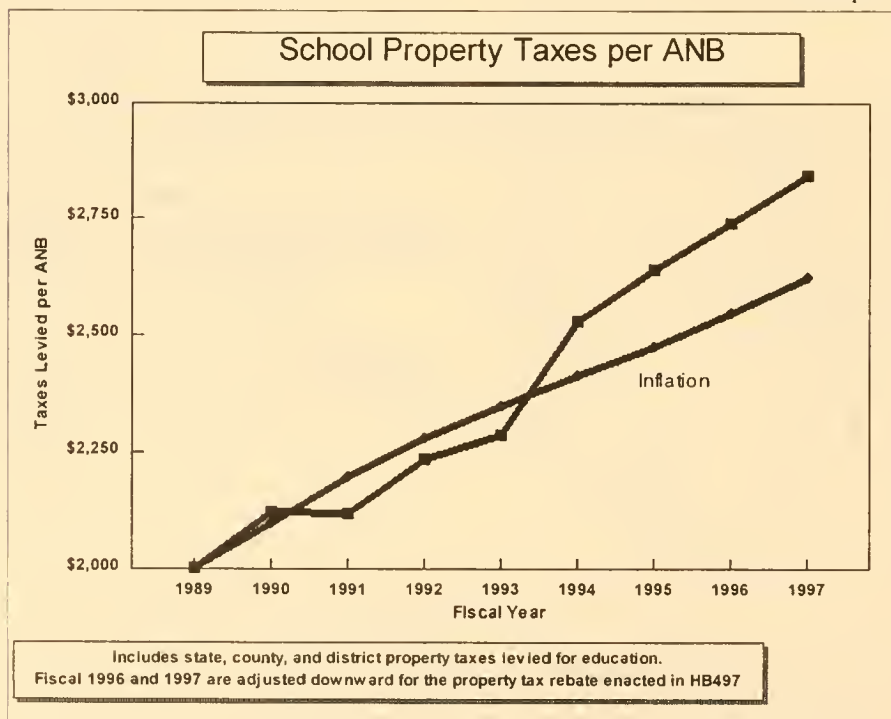


HISTORY OF PUBLIC SCHOOL FUNDING

Graph B



Graph C



HISTORY OF PUBLIC SCHOOL FUNDING

House Bill 28 increased the state's share of school general fund costs. HB 28 increased the statewide mills from 45 mills to 95 mills beginning in tax year 1990 (fiscal 1991), and removed most coal, oil and gas property from the property tax rolls. In spite of the increase in statewide mills, school taxes on the property remaining in the tax base grew at rates below inflation until fiscal 1994.

House Bill 28 was enacted in response to a Supreme Court ruling, in *Helena v. the State of Montana (No. 1)*, that deemed the Montana school funding system unequalized. Evidence that this was true included statistics that showed some schools were spending at levels 3 to 4 times other similarly sized and situated schools. A second suit was brought in 1991 contending that HB 28 had failed to alleviate spending disparities among school districts. In order to forestall this suit, the 1993 regular session of the legislature passed HB 667, which installed the BASE funding system. The new system created a budget equalization window with a maximum budget and minimum (BASE) budget and required all schools to budget within the window by fiscal 1998.

HB 667 allowed schools with fiscal 1993 budgets above the newly calculated maximum budget to continue budgeting at that level indefinitely. Subsequently, this grandfather clause was altered in HB 22 (1993 special session) which required district voters to approve any budgeting authority above the maximum.

Schools with budgets below the BASE when the system started in fiscal 1994 were required to incrementally increase budget authority and budget at the BASE level by fiscal 1998. In addition, schools already within the budget window were not allowed to increase general fund budgets by more than either 4 percent per year or 4 percent per ANB per year.

The three preceding charts show the impact of HB 667 on school funding. The amount of state spending per ANB fell in fiscal 1994 due to HB 667, and fell further in fiscal 1995 due to HB 22, which cut entitlements by 4.5 percent. The entitlements have been at the HB 22 levels since then, and state spending per ANB has been roughly constant. School district budgets peaked in fiscal 1994, fell in response to a

mandated reduction in school budget authority imposed in HB 22 in fiscal 1995, and have resumed a rate of growth close to that of inflation through fiscal 1997. Since fiscal 1994, districts with budgets below the BASE budget have been increasing budget authority every year in order to budget at the BASE budget by fiscal 1998.

Property tax payers experienced property tax increases at rates below inflation until fiscal 1994. This was primarily due to increased state spending mandated in HB 28 in the early nineties. In fiscal 1994, property reappraisal relieved pressure on district mill increases, and general fund budgets hit a peak. However the main reason for the fiscal 1994 property tax increase was that the state held the equalization mills fixed while property reappraisal boosted the tax base. Then, in fiscal 1995, the state's contribution to district spending was reduced in HB 22. In spite of the limits on district general fund growth enacted in HB 667 and the required district budget reductions in HB 22, property taxes per ANB for education continued to grow faster than inflation in fiscal 1995 through fiscal 1997. A major reason this occurred is that state spending per ANB has either declined or remained flat since fiscal 1993. Because district general fund budgets were growing at or near the rate of inflation, local property taxes increased at rates greater than inflation.

The property taxes shown in graph C are for all district funds, all county education funds, and for state equalization. Spending from district funds other than the general fund has grown at rates below inflation since fiscal 1993, as has spending from county education funds. State property taxes for education have been subject to fixed mill levies and have grown with the growth in property values, which statewide grew at a rate of 2.5 percent per year between tax year 1993 and tax year 1996.

A second reason why school property taxes have increased relatively faster than inflation is that the growth in nonlevy revenue from natural resources has been slowing. HB 28 converted a large share of the natural resource property tax base into "nonlevy" revenue which schools, counties, and the state receive in lieu of the property taxes they used to generate. Schools must use nonlevy revenue to offset property tax. As the nonlevy revenue from natural resources

HISTORY OF PUBLIC SCHOOL FUNDING

has declined, due to low resource prices and due to output reductions in response to low prices, the difference has been made up in property taxes levied on the property remaining in the tax base.

Summary - Except for a major increase in the state's contribution to K-12 education in fiscal 1991, growth in state spending per ANB has fallen in inflation-adjusted terms in every year since fiscal 1989. In addition, the state's share of school general fund spending has fallen to 64 percent in fiscal 1997 from 71 percent in fiscal 1991. The result for school general fund budgets has been a shift from state sources of revenue to more reliance on local property taxes.

HB 667 Fundamentals

HB 667 created a system of funding schools in which the state mandates the limits within which a school district may budget its general fund costs. The maximum budget is the sum of its basic per-district entitlement, its per-ANB entitlement, and 153 percent of its special education allowable costs. The BASE budget for a school district is the sum of 80 percent of the district's basic per-district entitlement, 80 percent of its per-ANB entitlement, and up to 140 percent of its special education allowable costs.

HB 667 and HB 22 instituted some special rules for schools that were initially outside the budget window. Districts with budgets above the maximum budget may continue to budget at these heightened levels if voters provide the authority to do so. Once a district's budget falls within the budget window, however, it must remain there. Districts with budgets below the BASE budget have been increasing budget authority and all will budget at least at the BASE level by fiscal 1998.

HB 667 and HB 22 also instituted voting rules for general fund budgets. A district with increasing ANB may not increase its budget beyond last year's budget unless its voters approve. The maximum increase the trustees of a district may ask voters to approve is 4 percent per year or 4 percent per ANB per year. Districts with declining ANB may not budget at the prior year's budget at all, unless voters approve. Districts with declining ANB may budget at the

prior year's budget per ANB times this year's ANB without voter approval.

The general fund voting rules apply regardless of changes in entitlements. Thus, increases in entitlements, which generate more state aid dollars for the district, must result in property tax decreases unless voters approve additional budget authority.

Funding for school general fund budgets was also changed substantially under HB 667. Districts receive in Direct State Aid (DSA) an amount which is 40 percent of the total entitlements used to calculate the maximum budget. Direct state aid is a grant from the state general fund and is the first source of revenue considered by a district. Direct state aid in fiscal 1997 will be \$272 million.

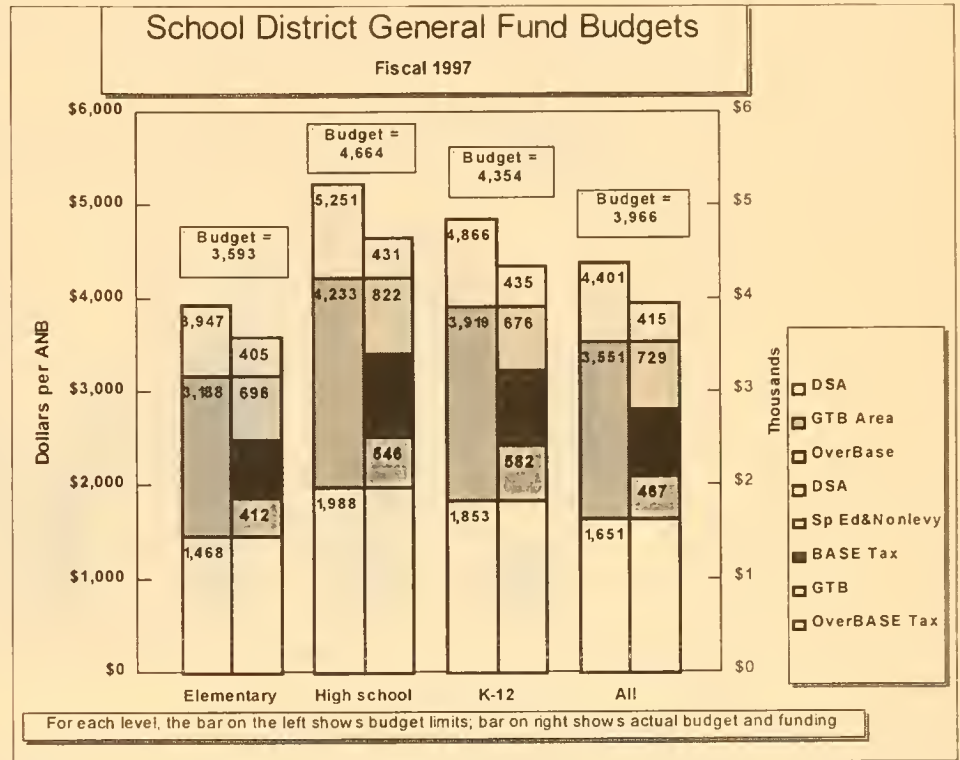
The portion of the budget above that funded by DSA and below the BASE budget is called the GTB budget area. This is funded first of all by special education revenue received from the state general fund, approximately \$33 million per year. The next source of revenue to fund the GTB area is nonlevy revenue (\$49 million in fiscal 1997) such as motor vehicle fees, local government severance taxes, coal gross proceeds, oil and gas net proceeds, etc. Included in nonlevy revenue is unreserved fund balances left over from the previous year. The remaining portion of the GTB area is funded by BASE property taxes (\$116 million) and state GTB aid (\$120 million). The amount of GTB aid a district receives depends on its relative wealth as measured by taxable value per dollar of direct state aid. A relatively poor district's BASE mill generates local property taxes and a certain amount of GTB aid. The average ratio of GTB aid to BASE property tax revenue is close to one for the state as a whole. This may vary from zero for wealthy districts to over ten for poor districts.

Districts that budget above the BASE level must do so out of own-source revenue. Some districts are able to use nonlevy revenue to fund a portion of this budget area, but the vast majority levy over-BASE mills against property. This amounted to \$68 million in fiscal 1997.

HISTORY OF PUBLIC SCHOOL FUNDING

Graph D at the right shows a schema of the K-12 funding system for fiscal 1997. Elementary districts contain grades 1 through 8, high school grades 9 through 12, and K-12 all twelve grades. Each grade level contains two bars, the one on the left showing the maximum and BASE budget limits and DSA, the second showing the source and level of funding per ANB. The base of each bar contains DSA and the amount of DSA per ANB is shown. The GTB area is shown as is the average statewide revenues per ANB which fund the part of the budget below the BASE budget. Finally, over BASE property tax revenues are shown. The average statewide budget per ANB is shown in a box at the head of each column.

Graph D



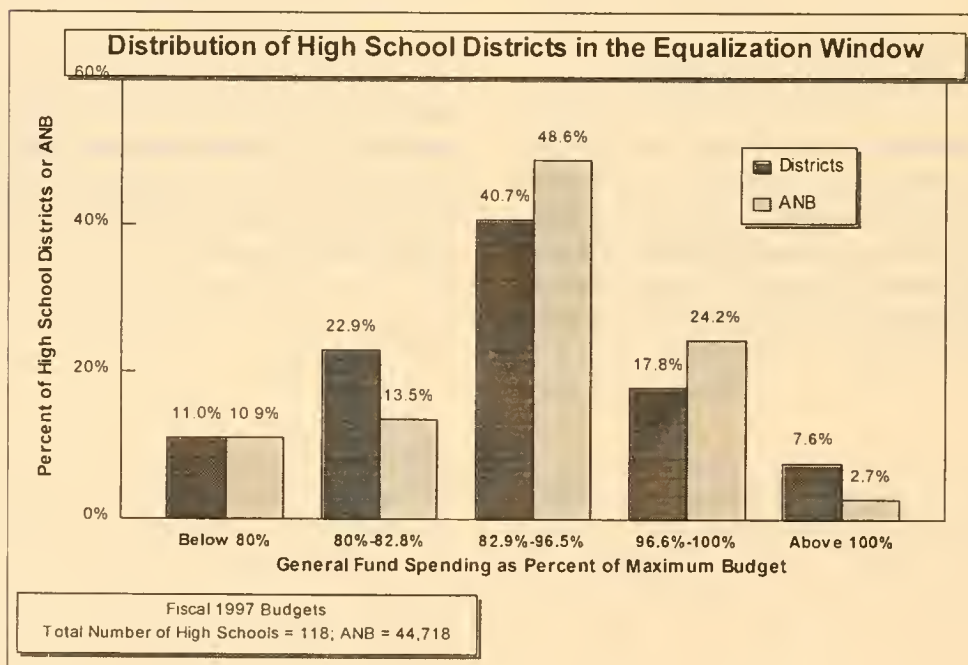
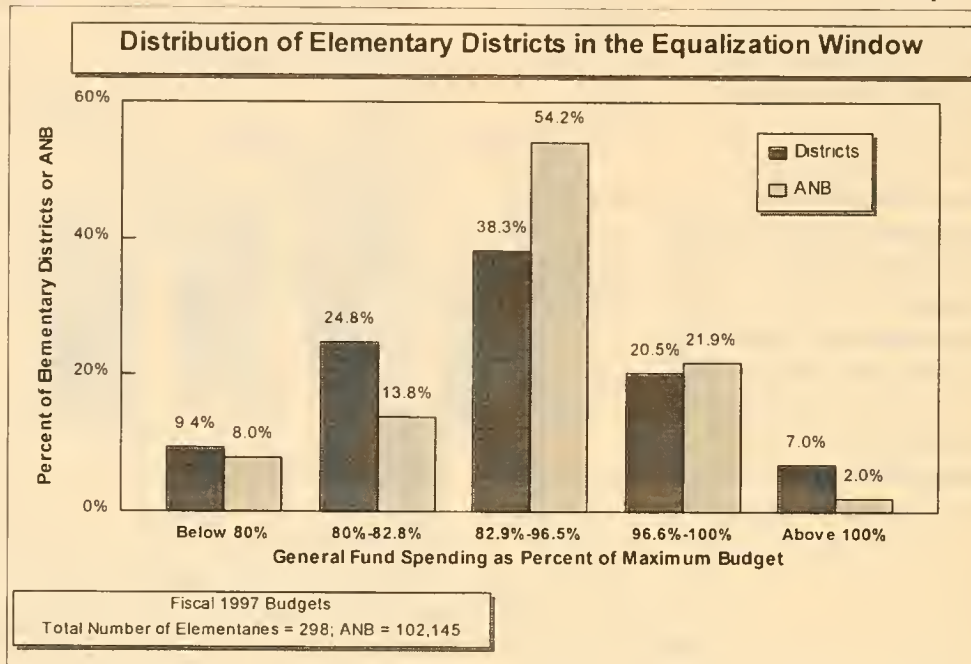
Fiscal 1997 School District General Fund Budgets

The dispersion of spending per student has been declining each year since the enactment of HB 667. The primary reasons for this have been that: 1) schools budgeting below the BASE budget have been increasing budget authority; and 2) some school districts budgeting above the maximum budget have not been able to convince voters to continue approving the authority to do so.

Graph E on the next page shows the dispersion of districts and ANB within and without the equalization window for fiscal 1997. For both elementary and high school districts, the dispersions are fairly balanced for both districts and ANB. Some large K-12 districts remain below the BASE budget level, however.

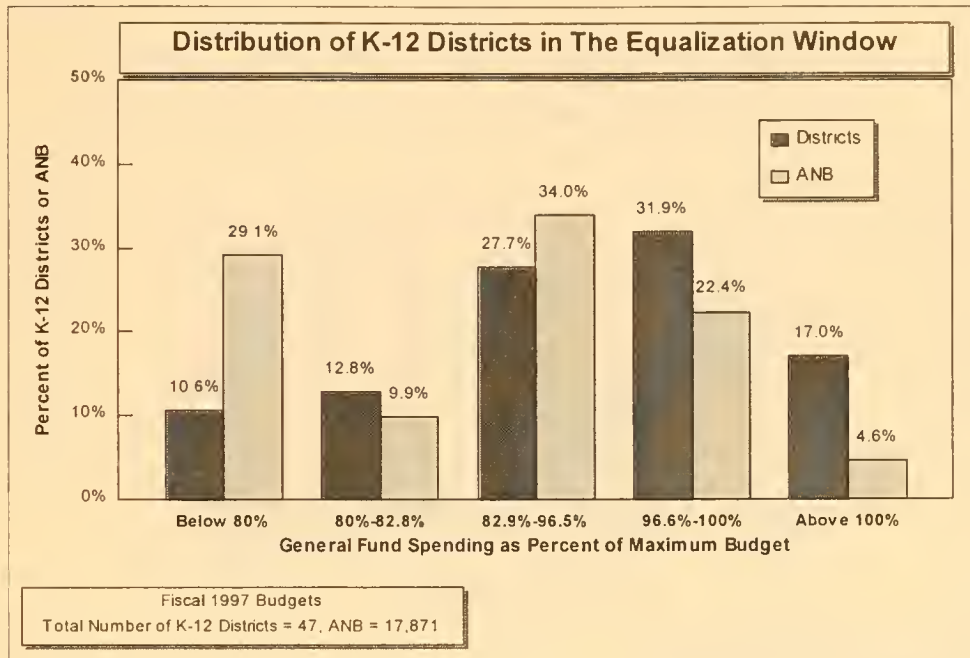
HISTORY OF PUBLIC SCHOOL FUNDING

Graph E



HISTORY OF PUBLIC SCHOOL FUNDING

Graph E cont.



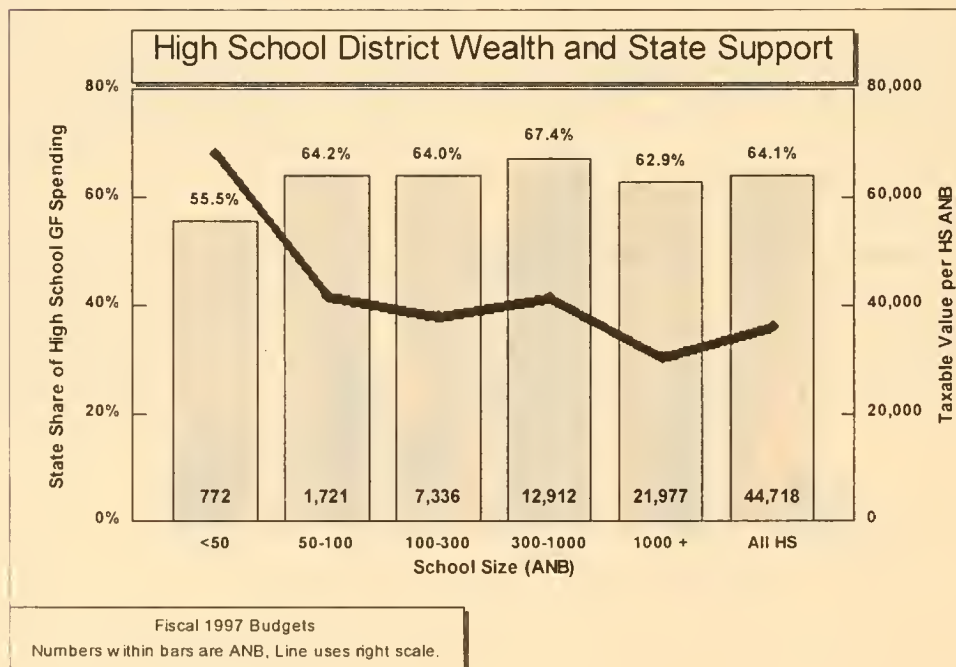
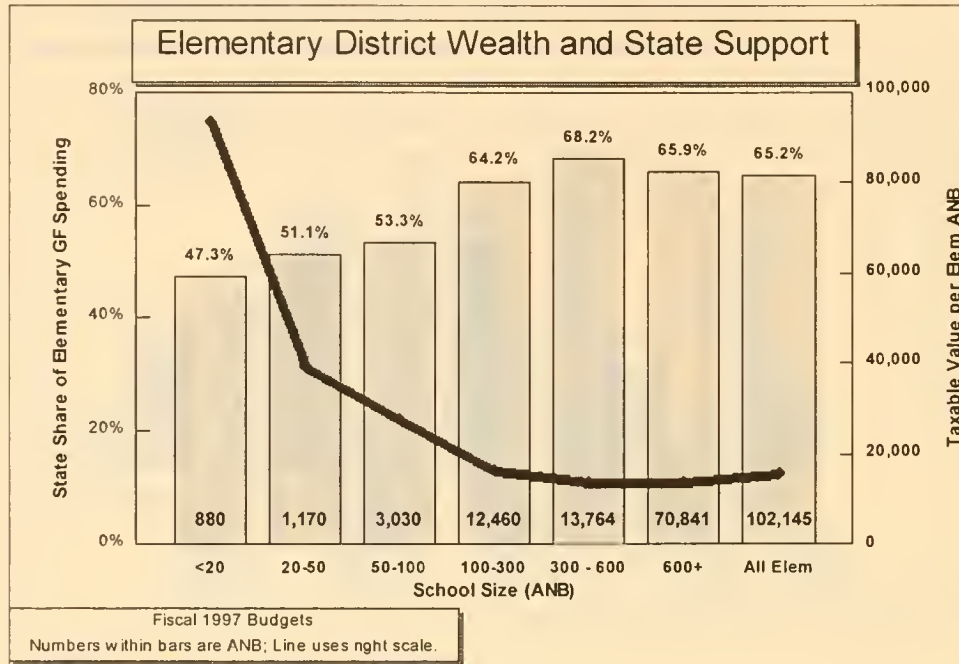
The brackets within the window were chosen as a result of the executive's proposal to increase entitlements 3.5 percent. Increasing entitlements by 3.5 percent will increase the BASE budget by approximately 2.8 percent (80 percent of 3.5 percent). If this proposal had been applied to 1997 budgets, approximately 34.2 percent of elementary districts would have been required to increase general fund budget authority. Increasing entitlements by 3.5 percent will increase maximum budgets by approximately 3.5 percent and has the potential of "capturing" districts currently above the maximum within the equalization window. However, of the 38 districts with budgets above the maximum in fiscal 1997, only 5 would have been brought within the equalization window because of a 3.5 percent entitlement increase.

State support for education under HB 667 provides more support for less wealthy schools. On the average, state support for district general fund budgets for fiscal 1997 is 64.4 percent. However this percent varies depending on the wealth of a district, the size of the district, and the grade level of the school district. Graph F below shows the percentage of state support, as well as the average taxable value per ANB, by size category of school.

The bars in Graph F show that small schools receive a smaller proportion of their revenue from the state than do larger schools. The line in each graph shows that smaller school districts tend to be more wealthy districts. Graph F also shows that the variability in wealth is much greater among elementary schools than it is among either high school or K-12 districts.

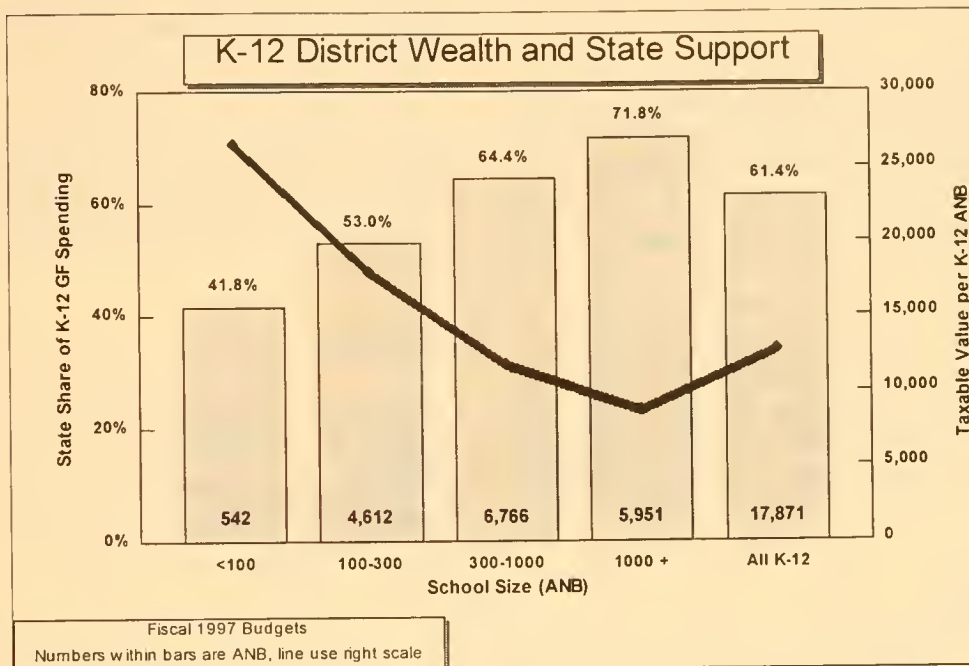
HISTORY OF PUBLIC SCHOOL FUNDING

Graph F



HISTORY OF PUBLIC SCHOOL FUNDING

Graph F cont.



EXPENDITURE LIMITATION

1999 Biennium Budget Below Limit

Section 17-8-106, MCA, limits the increases in biennial appropriations from the general fund, state special revenue, and the cash portion of the capital projects fund to the growth in Montana's personal income. The following is a summarization of the expenditure limitation calculations done by the Office of Budget and Program Planning.

The Executive Budget for the 1997 biennium is 2.1 percent or \$58.3 million below the statutory expenditure limit. Under the executive recommendation, the growth in Montana personal income between the 1997 and 1999 biennia from accounts affected by the limitation will be less than the growth in Montana personal income during the last three year period.

Calculation of Limit

The following types of appropriations are not subject to the limit:

- money received from the federal government;
- payments on bonded indebtedness;
- money paid for unemployment or disability benefits;
- money received from the sale of goods and services;
- money paid from permanent endowments, constitutional trusts, or pension funds;
- proceeds from gifts and bequests;
- money appropriated for tax relief; and
- funds transferred within state government or purchases of goods for resale.

Three calculations are required to determine the expenditure limit:

Step #1 - Determine the base appropriation level for the current biennium by summing appropriations for the general fund, state special revenue accounts, and the cash portion of the capital projects fund, excluding the items listed previously;

Step #2 - Determine the growth in personal income for the three years preceding the current biennium (1992, 1993, and

1994) and the three years preceding the next biennium (1994, 1995, 1996). The growth in Montana's personal income between these two periods is 9.51 percent.

Step #3 - Multiply the 1997 biennium appropriation base by the growth in personal income to establish the expenditure limitation. Subtract the base appropriations for the 1999 biennium from the 1999 expenditure limit. This difference is \$58.3 million.

Compliance

Table 1 shows the figures used to calculate the spending limitation for the 1999 biennium. The calculations show that the Executive Budget recommendation for the 1999 biennium is below the expenditure limit.

Table 1 Expenditure Limitation Calculation* 1999 Biennium (in Millions)				
				Amount
<u>Step # 1 Base Appropriations</u>				
1997 Biennium Appropriations				\$2,912.744
Supplementals				15.419
Exclusions				(487.578)
Base Appropriations				\$2,440.585
	Personal Income	3-year Average	Percent Growth	
<u>Step #2 Personal Income Growth</u> Figures in Millions				
Calendar 1992	\$13,640.752			
Calendar 1993	14,816.921			
Calendar 1994	15,158.279	\$14,538.651		
Calendar 1995	16,052.167			
Calendar 1996	\$16,551.630	\$15,920.692	9.51 %	
				Amount
<u>Step #3 Expenditure Limitation</u>				
Expenditure Limitation				\$2,672.587
Executive Budget Appropriations				
General Fund				2,091.025
State Special Revenue				1,044.164
Capital Projects (cash)				8.600
Total Appropriations				3,143.789
Exclusions				(529.486)
Net Appropriations				2,614.303
Expenditure Limit Balance				\$58.284
*Calculation prepared by OBPP and reviewed by LFD				

AGENCY BUDGET COMPARISONS BY FUND

The following series of tables provide, by fund type, a comparison of the 1997 and 1999 biennium agency budgets. The 1997 biennium budget is comprised of the adjusted base fiscal 1996 actual expenditures and the adjusted fiscal 1997 appropriated levels. The 1999 biennium budget figures are the Executive Budget. Each fiscal year budget is shown, as well as combined biennium budgets and the biennial difference. The final table shows the agency comparison for all funds.

The Executive Budget numbers reported in the tables do not include the proposed pay plan.

General Fund

As defined in 17-7-102, MCA, the general fund "accounts for all financial resource except those required to be accounted for in another fund." The general fund is used to fund the general operations of state government.

The largest general fund increases are in human services, corrections, and K-12 education.

General Fund Comparison 97 Biennium Versus Executive Budget 99 Biennium								
Agcy Code	Agency Name	Adjusted Base Fiscal 1996	Adjusted Authorized Fiscal 1997	Total Exec. Budget Fiscal 1998	Total Exec. Budget Fiscal 1999	Total Adjusted Fiscal 96-97	Total Exec. Budget Fiscal 98-99	Difference 99 Biennium - 97 Biennium
1104	Legislative Branch	4,791,976	5,550,093	5,524,150	6,114,375	10,342,069	11,638,525	1,296,456
1112	Consumer Counsel							
2110	Judiciary	6,053,315	6,174,140	7,055,247	7,030,207	12,227,455	14,085,454	1,857,999
2115	Montana Chiropractic Legal Panel							
3101	Governors Office	2,540,997	2,727,103	2,938,714	2,902,850	5,268,100	5,841,564	573,464
3201	Secretary of States Office		38,246			38,246		(38,246)
3202	Commissioner of Political Practices	276,756	352,016	276,020	275,405	628,772	551,425	(77,347)
3401	State Auditors Office	2,093,042	2,172,388	2,402,886	2,348,437	4,265,430	4,751,323	485,893
3501	Office of Public Instruction	459,224,542	469,664,642	458,634,084	485,400,112	928,889,184	944,034,196	15,145,012
4107	Crime Control Division	2,057,201	2,216,787	2,493,329	2,503,257	4,273,988	4,996,586	722,598
4110	Department of Justice	14,644,745	15,889,844	17,929,150	17,647,506	30,534,589	35,576,656	5,042,067
4201	Public Service Regulation							
5100	Montana University System	107,624,051	113,464,109	112,311,147	113,355,029	221,088,160	225,666,176	4,578,016
5101	Board of Public Education	117,274	119,968	124,828	123,378	237,242	248,206	10,964
5113	School for the Deaf & Blind	2,915,309	2,955,701	3,035,756	2,945,069	5,871,010	5,980,825	109,815
5114	Montana Arts Council	132,018	115,874	494,959	482,944	247,892	977,903	730,011
5115	Library Commission	1,394,754	1,454,342	1,592,412	1,525,910	2,849,096	3,118,322	269,226
5116	Advisory Council for Vocational Education							
5117	Historical Society	1,363,463	1,392,525	1,546,836	1,527,577	2,755,988	3,074,413	318,425
5201	Department of Fish, Wildlife & Parks	407,592	409,931	428,616	424,392	817,523	853,008	35,485
5301	Department of Environmental Quality	1,559,309	1,836,246	2,112,520	2,103,909	3,395,555	4,216,429	820,874
5401	Department of Transportation	249,800	250,000	250,000	250,000	499,800	500,000	200
5603	Department of Livestock	409,513	497,092	536,444	542,355	906,605	1,078,799	172,194
5706	Department of Natural Resources & Conservation	13,232,665	13,330,001	13,421,423	13,455,029	26,562,666	26,876,451	313,785
5801	Department of Revenue	22,349,230	23,208,998	25,709,109	25,311,354	45,558,228	51,020,464	5,462,236
6101	Department of Administration	3,108,874	3,271,732	5,429,121	5,365,257	6,380,606	10,794,378	4,413,772
6102	Appellate Defender Commission	101,178	104,129	154,050	160,343	205,307	314,393	109,086
6104	Public Employees Retirement Board							
6105	Teachers Retirement Board							
6107	Long-Range Building							
6201	Department of Agriculture	397,967	476,273	506,631	493,775	874,240	1,000,406	126,166
6401	Department of Corrections	52,136,141	53,783,837	76,829,283	82,828,323	105,919,978	159,657,606	53,737,628
6501	Department of Commerce	1,637,721	1,673,421	2,567,374	2,460,868	3,311,142	5,028,242	1,717,100
6602	Department of Labor & Industry	1,248,752	1,270,842	1,287,823	1,274,306	2,519,594	2,562,129	42,535
6701	Department of Military Affairs	2,066,463	2,150,330	2,400,343	2,374,715	4,216,793	4,775,058	558,265
6901	Department of Public Health & Human Services	215,083,297	232,229,798	231,738,981	235,925,163	447,313,095	467,664,144	20,351,049
Totals		\$919,217,945	\$958,780,408	\$979,731,235	\$1,017,151,845	\$1,877,998,353	\$1,996,883,080	\$118,884,727

AGENCY BUDGET COMPARISONS BY FUND

State Special Revenue Fund

As defined in 17-7-102, MCA, the state special fund "consists of money from state and other nonfederal sources deposited in the state treasury that is earmarked for the purposes of defraying particular costs of an agency, program, or function of state government and money from other non-state or nonfederal sources that is restricted by law

or by the terms of an agreement, such as a contract, trust agreement, or donation."

The largest increases in state special revenue funds are for highways construction and various environmental programs. The increase in the Department of Public Health and Human Services is for the mental health managed care contract.

State Special Revenue Fund Comparison
97 Biennium Versus Executive Budget 99 Biennium

Agcy Code	Agency Name	Adjusted Base Fiscal 1996	Adjusted Authorized Fiscal 1997	Total Exec. Budget Fiscal 1998	Total Exec. Budget Fiscal 1999	Total Adjusted Fiscal 96-97	Total Exec. Budget Fiscal 98-99	Difference 99 Biennium - 97 Biennium
1104	Legislative Branch	2,035,802	1,837,604	2,262,035	1,681,505	3,873,406	3,943,540	70,134
1112	Consumer Counsel	816,814	1,054,624	1,012,977	1,028,992	1,871,438	2,041,969	170,531
2110	Judiciary	1,103,958	1,525,260	1,565,312	1,564,351	2,629,218	3,129,663	500,445
2115	Montana Chiropractic Legal Panel	13,797	14,000	14,000	14,000	27,797	28,000	203
3101	Governors Office	171,495	218,750	260,966	268,618	390,245	529,584	139,339
3201	Secretary of States Office							
3202	Commissioner of Political Pracuces							
3401	State Auditors Office	491,109	506,615	670,265	668,296	997,724	1,338,561	340,837
3501	Office of Public Instruction	1,298,150	463,934	3,887,339	4,385,515	1,762,084	8,272,854	6,510,770
4107	Crime Control Division							
4110	Department of Justice	18,453,774	18,760,285	19,872,441	19,657,482	37,214,059	39,529,923	2,315,864
4201	Public Service Regulation	2,010,118	2,154,440	2,735,737	3,223,967	4,164,558	5,959,704	1,795,146
5100	Montana University System	96,663,497	108,009,998	116,710,354	124,259,057	204,673,495	240,969,411	36,295,916
5101	Board of Public Education	130,425	176,395	175,491	174,005	306,820	349,496	42,676
5113	School for the Deaf & Blind	272,854	289,087	220,189	220,189	561,941	440,378	(121,563)
5114	Montana Arts Council	132,480	169,746	116,978	120,241	302,226	237,219	(65,007)
5115	Library Commission	611,752	736,904	876,976	735,724	1,348,656	1,612,701	264,045
5116	Advisory Council for Vocational Education							
5117	Historical Society	128,068	155,580	204,491	194,076	283,648	398,567	114,919
5201	Department of Fish, Wildlife & Parks	24,754,426	27,401,221	29,557,330	30,452,545	52,155,647	60,009,875	7,854,228
5301	Department of Environmental Quality	10,654,098	12,970,251	13,799,396	12,784,399	23,624,349	26,583,795	2,959,446
5401	Department of Transportation	135,726,710	161,649,532	164,650,570	165,630,097	297,376,242	330,280,667	32,904,425
5603	Department of Livestock	5,246,333	5,311,763	5,493,885	5,453,788	10,558,096	10,947,673	389,577
5706	Department of Natural Resources & Conservation	9,749,885	10,345,018	13,131,611	12,837,857	20,094,903	25,969,468	5,874,565
5801	Department of Revenue	810,035	784,546	1,043,504	1,031,317	1,594,581	2,074,822	480,241
6101	Department of Administration	760,895	880,167	924,553	920,859	1,641,062	1,845,412	204,350
6102	Appellate Defender Commission							
6104	Public Employees Retirement Board							
6105	Teachers Retirement Board							
6107	Long-Range Building							
6201	Department of Agriculture	6,417,112	7,297,943	7,638,760	7,620,522	13,715,055	15,259,282	1,544,227
6401	Department of Corrections	1,403,509	1,415,012	1,342,840	1,345,124	2,818,521	2,687,964	(130,557)
6501	Department of Commerce	9,644,348	9,851,336	11,002,204	10,895,263	19,495,684	21,897,467	2,401,783
6602	Department of Labor & Industry	9,710,997	12,268,608	11,004,569	10,424,295	21,979,605	21,428,864	(550,741)
6701	Department of Military Affairs	64,550	77,291	101,523	107,351	141,841	208,874	67,033
6901	Department of Public Health & Human Services	28,305,776	50,230,599	49,351,881	49,586,802	78,536,375	98,938,683	20,402,308
Totals		\$367,582,767	\$436,556,509	\$459,628,176	\$467,286,238	\$804,139,276	\$926,914,414	\$122,775,138

AGENCY BUDGET COMPARISONS BY FUND

Federal Special Funds

As defined in 17-7-102, MCA, the federal special fund "consists of money deposited in the treasury from federal sources, including trust income, that is used for the operation

of state government."

The largest federal fund increases are in K-12 education and human services.

Federal Special Revenue Fund Comparison 97 Biennium Versus Executive Budget 99 Biennium								
Agcy Code	Agency Name	Adjusted Base Fiscal 1996	Adjusted Authorized Fiscal 1997	Total Exec. Budget Fiscal 1998	Total Exec. Budget Fiscal 1999	Total Adjusted Fiscal 96-97	Total Exec. Budget Fiscal 98-99	Difference 99 Biennium - 97 Biennium
1104	Legislative Branch							
1112	Consumer Counsel							
2110	Judiciary	85,959	110,000	158,725	158,725	195,959	317,450	121,491
2115	Montana Chiropractic Legal Panel							
3101	Governors Office	136,890	192,608	12,075	12,078	329,498	24,153	(305,345)
3201	Secretary of States Office							
3202	Commissioner of Political Practices							
3401	State Auditors Office			2,500	2,500		5,000	5,000
3501	Office of Public Instruction	63,620,318	66,527,585	71,265,390	71,119,772	130,147,903	142,385,162	12,237,259
4107	Crime Control Division	3,939,041	5,741,854	7,242,179	6,890,804	9,680,895	14,132,983	4,452,088
4110	Department of Justice	1,785,425	2,595,536	1,826,337	1,813,387	4,380,961	3,639,723	(741,238)
4201	Public Service Regulation	15,496	26,763	26,250	26,250	42,259	52,500	10,241
5100	Montana University System	13,002,049	15,600,926	13,445,046	13,553,274	28,602,975	26,998,320	(1,604,655)
5101	Board of Public Education							
5113	School for the Deaf & Blind	82,056	71,539	82,056	82,056	153,595	164,112	10,517
5114	Montana Arts Council	436,934	543,776	258,000	258,000	980,710	516,000	(464,710)
5115	Library Commission	785,464	1,271,165	1,150,178	1,109,739	2,056,629	2,259,916	203,287
5116	Advisory Council for Vocational Education	158,576	173,514			332,090		(332,090)
5117	Historical Society	498,993	620,116	671,231	659,872	1,119,109	1,331,103	211,994
5201	Department of Fish, Wildlife & Parks	7,928,506	8,689,910	11,186,971	11,603,134	16,618,416	22,790,104	6,171,688
5301	Department of Environmental Quality	13,506,641	13,703,811	14,615,708	14,595,278	27,210,452	29,210,986	2,000,534
5401	Department of Transportation	170,227,548	224,400,412	189,222,171	168,009,211	394,627,960	357,231,382	(37,396,578)
5603	Department of Livestock	323,786	348,370	402,264	406,164	672,156	808,428	136,272
5706	Department of Natural Resources & Conservation	1,072,640	1,139,682	1,458,023	1,461,367	2,212,322	2,919,391	707,069
5801	Department of Revenue	226,068	243,273	712,704	405,849	469,341	1,118,553	649,212
6101	Department of Administration			10,483	10,615		21,098	21,098
6102	Appellate Defender Commission							
6104	Public Employees Retirement Board							
6105	Teachers Retirement Board							
6107	Long-Range Building							
6201	Department of Agriculture	430,976	593,601	746,130	797,711	1,024,577	1,543,840	519,263
6401	Department of Corrections	492,592	577,593	516,139	513,351	1,070,185	1,029,490	(40,695)
6501	Department of Commerce	25,129,108	32,647,837	33,466,587	35,041,791	57,776,945	68,508,378	10,731,433
6602	Department of Labor & Industry	25,468,883	29,166,012	26,563,510	26,609,782	54,634,895	53,173,292	(1,461,603)
6701	Department of Military Affairs	4,589,726	4,783,882	5,288,723	5,378,867	9,373,608	10,667,590	1,293,982
6901	Department of Public Health & Human Services	426,618,091	463,467,184	475,880,381	498,929,611	890,085,275	974,809,993	84,724,718
Totals		\$760,561,766	\$873,236,949	\$856,209,761	\$859,449,187	\$1,633,798,715	\$1,715,658,947	\$81,860,232

AGENCY BUDGET COMPARISONS BY FUND

Proprietary Funds

As defined in 17-7-102, MCA, proprietary funds are defined as either enterprise or internal service funds. Enterprise funds "account for operations: (A) that are financed and operated in a manner similar to private business enterprises whenever the intent of the legislature is that costs (i.e., expenses, including depreciation) of providing goods or services to that general public on a continuing basis are to be financed or recovered primarily through user charges; or (B) whenever the legislature has decided that periodic determination of revenue earned, expenses incurred, or net

income is appropriate for capital maintenance, public policy, management control, accountability, or other purses". Internal service funds "account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursed basis.

HB 576 eliminated the requirement that most proprietary funds be appropriated. Therefore, any increases in the programs supported with those proprietary funds are not reflected in the table.

Proprietary Fund Comparison 97 Biennium Versus Executive Budget 99 Biennium

Agcy Code	Agency Name	Adjusted Base Fiscal 1996	Adjusted Authorized Fiscal 1997	Total Exec. Budget Fiscal 1998	Total Exec. Budget Fiscal 1999	Total Adjusted Fiscal 96-97	Total Present Law Fiscal 98-99	Difference 99 Biennium - 97 Biennium
4110	Department of Justice	9,137	8,512	107,681	130,919	17,649	20,162	220,951
5100	Montana University System	942,905	964,336	985,695	980,821	1,907,241	1,966,516	59,275
5117	Historical Society	696,295	752,031	760,894	752,010	1,448,326	1,376,833	64,578
5201	Department of Fish, Wildlife & Parks	1	0	0	0	1	0	(1)
5801	Department of Revenue	375,976	348,871	0	1	724,847	775,137	(724,846)
6101	Department of Administration	818,571	842,680	36,486	36,523	1,661,251	1,805,672	(1,588,242)
6201	Department of Agriculture	212,660	238,590	240,156	240,615	451,250	476,295	29,522
6401	Department of Corrections	376,495	828,025	490,003	517,655	1,204,520	778,103	(196,862)
6602	Department of Labor & Industry	<u>507,822</u>	<u>668,794</u>	<u>889,322</u>	<u>881,552</u>	<u>1,176,616</u>	<u>1,770,920</u>	<u>594,258</u>
Totals		\$3,939,862	\$4,651,839	\$3,510,238	\$3,540,095	\$8,591,701	\$8,969,638	(\$1,541,368)

AGENCY BUDGET COMPARISONS BY FUND

Other Funds

Other funds include capital projects and fiduciary funds. As defined in 17-7-102, MCA, the capital projects fund "accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds". The fiduciary funds include "trust and agency fund types used to account for assets held by state government in a

trustee capacity or as an agent for individuals, private organizations, other governmental entities, or other funds. These include the: (i) expendable trust fund type; (ii) the non-expendable trust fund type; (iii) pension trust fund type; and (iv) agency fund type".

Comparison tables are provided below for the capital projects funds, the expendable trust fund, and the non-expendable/pension trust funds.

Capital Projects Fund Comparison 97 Biennium Versus Executive Budget 99 Biennium

Agcy Code	Agency Name	Adjusted Base Fiscal 1996	Adjusted Authorized Fiscal 1997	Total Exec. Budget Fiscal 1998	Total Exec. Budget Fiscal 1999	Total Adjusted Fiscal 96-97	Total Exec. Budget Fiscal 98-99	Difference 99 Biennium - 97 Biennium
6101	Department of Administration	58,800	58,801	58,801	58,801	117,601	117,602	1
	Totals	\$58,800	\$58,801	\$58,801	\$58,801	\$117,601	\$117,602	\$1

Expendable Trust Fund Comparison 97 Biennium Versus Executive Budget 99 Biennium

Agcy Code	Agency Name	Adjusted Base Fiscal 1996	Adjusted Authorized Fiscal 1997	Total Exec. Budget Fiscal 1998	Total Exec. Budget Fiscal 1999	Total Adjusted Fiscal 96-97	Total Exec. Budget Fiscal 98-99	Difference 99 Biennium - 97 Biennium
6101	Department of Administration	0	0	4,500,000	4,500,000	0	9,000,000	9,000,000
6201	Department of Agriculture	68,516	83,214	73,293	72,255	151,730	145,548	(6,182)
	Totals	\$68,516	\$83,214	\$4,573,293	\$4,572,255	\$151,730	\$9,145,548	\$8,993,818

Non-Expendable Trust Fund Comparison 97 Biennium Versus Executive Budget 99 Biennium

Agcy Code	Agency Name	Adjusted Base Fiscal 1996	Adjusted Authorized Fiscal 1997	Total Exec. Budget Fiscal 1998	Total Exec. Budget Fiscal 1999	Total Adjusted Fiscal 96-97	Total Exec. Budget Fiscal 98-99	Difference 99 Biennium - 97 Biennium
6104	Public Employees Retirement Board	1,253,220	1,216,169	1,389,091	1,316,965	2,469,389	2,706,056	236,667
6105	Teachers Retirement Board	678,821	736,654	994,113	778,978	1,415,475	1,773,091	357,616
	Totals	\$1,932,041	\$1,952,823	\$2,383,204	\$2,095,943	\$3,884,864	\$4,479,147	\$594,283

AGENCY BUDGET COMPARISONS BY FUND

All Funds

preceding tables, and shows a \$331.6 million increase in total fund expenditures.

The final comparison table is a composite by agency of the

All Funds Comparison 97 Biennium Versus Executive Budget 99 Biennium

Agcy Code	Agency Name	Adjusted Base Fiscal 1996	Adjusted Authorized Fiscal 1997	Total Exec. Budget Fiscal 1998	Total Exec. Budget Fiscal 1999	Total Adjusted Fiscal 96-97	Total Exec. Budget Fiscal 98-99	Difference 99 Biennium - 97 Biennium
1104	Legislative Branch	6,827,778	7,387,697	7,786,185	7,795,880	14,215,475	15,582,065	1,366,590
1112	Consumer Counsel	816,814	1,054,624	1,012,977	1,028,992	1,871,438	2,041,969	170,531
2110	Judiciary	7,243,232	7,809,400	8,779,284	8,753,283	15,052,632	17,532,567	2,479,935
2115	Montana Chiropractic Legal Panel	13,797	14,000	14,000	14,000	27,797	28,000	203
3101	Governors Office	2,849,382	3,138,461	3,211,755	3,183,546	5,987,843	6,395,301	407,458
3201	Secretary of States Office		38,246			38,246		(38,246)
3202	Commissioner of Political Practices	276,756	352,016	276,020	275,405	628,772	551,425	(77,347)
3401	State Auditors Office	2,584,151	2,679,003	3,075,651	3,019,233	5,263,154	6,094,884	831,730
3501	Office of Public Instruction	524,143,010	536,656,161	533,786,812	560,905,400	1,060,799,171	1,094,692,212	33,893,041
4107	Crime Control Division	5,996,242	7,958,641	9,735,508	9,394,061	13,954,883	19,129,569	5,174,686
4110	Department of Justice	34,893,081	37,254,177	39,735,608	39,249,293	72,147,258	78,984,901	6,837,643
4201	Public Service Regulation	2,025,614	2,181,203	2,761,987	3,250,217	4,206,817	6,012,204	1,805,387
5100	Montana University System	218,232,502	238,039,369	243,452,242	252,148,181	456,271,871	495,600,423	39,328,552
5101	Board of Public Education	247,699	296,363	300,319	297,383	544,062	597,702	53,640
5113	School for the Deaf & Blind	3,270,219	3,316,327	3,338,001	3,247,314	6,586,546	6,585,315	(1,231)
5114	Montana Arts Council	701,432	829,396	869,937	861,185	1,530,828	1,731,122	200,294
5115	Library Commission	2,791,970	3,462,411	3,619,566	3,371,373	6,254,381	6,990,939	736,558
5116	Advisory Council for Vocational Education	158,576	173,514			332,090		(332,090)
5117	Historical Society	2,686,819	2,920,252	3,183,452	3,133,535	5,607,071	6,316,987	709,916
5201	Department of Fish, Wildlife & Parks	33,090,525	36,501,062	41,172,916	42,480,071	69,591,587	83,652,987	14,061,400
5301	Department of Environmental Quality	25,720,048	28,510,308	30,527,624	29,483,586	54,230,356	60,011,210	5,780,854
5401	Department of Transportation	306,204,058	386,299,944	354,122,741	333,889,308	692,504,002	688,012,049	(4,491,953)
5603	Department of Livestock	5,979,632	6,157,225	6,432,593	6,402,307	12,136,857	12,834,900	698,043
5706	Department of Natural Resources & Conservauon	24,055,190	24,814,701	28,011,057	27,754,253	48,869,891	55,765,310	6,895,419
5801	Department of Revenue	23,761,309	24,585,688	27,465,318	26,748,521	48,346,997	54,213,839	5,866,842
6101	Department of Administration	4,747,140	5,053,380	10,959,444	10,892,055	9,800,520	21,851,499	12,050,979
6102	Appellate Defender Commission	101,178	104,129	154,050	160,343	205,307	314,393	109,086
6104	Public Employees Retirement Board	1,253,220	1,216,169	1,389,091	1,316,965	2,469,389	2,706,056	236,667
6105	Teachers Retirement Board	678,821	736,654	994,113	778,978	1,415,475	1,773,091	357,616
6107	Long-Range Building							
6201	Department of Agriculture	7,527,231	8,689,621	9,204,970	9,224,878	16,216,852	18,429,848	2,212,996
6401	Department of Corrections	54,408,737	56,604,467	79,178,265	85,204,453	111,013,204	164,382,718	53,369,514
6501	Department of Commerce	36,411,177	44,172,594	47,036,165	48,397,921	80,583,771	95,434,086	14,850,315
6602	Department of Labor & Industry	36,936,454	43,374,256	39,745,223	39,189,936	80,310,710	78,935,159	(1,375,551)
6701	Department of Military Affairs	6,720,739	7,011,503	7,790,589	7,860,933	13,732,242	15,651,522	1,919,280
6901	Department of Public Health & Human Services	670,007,164	745,927,581	756,971,244	784,441,576	1,415,934,745	1,541,412,820	125,478,075
Totals		\$2,053,361,697	\$2,275,320,543	\$2,306,094,707	\$2,354,154,365	\$4,328,682,240	\$4,660,249,072	\$331,566,832

\$2,056,670,941



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